

***How Does Whistleblowing and Leaking Affect Anti-Money
Laundering Policy Changes in the European Union?***

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Abstract

Purpose: The purpose of this Thesis to detect whether whistleblowing and exposed leaks are triggers for anti-money laundering policy changes and analyze those changes in the European Union and in some of the Member States of the European Union.

Design/Methodology/Approach: Literature review, analysis of recent scandals and the policy responses. Additionally I conducted an interview with the member of the cabinet of Věra Jourová, European Commissioner for Justice, and Consumers and Gender Equality. I also analyzed news, investigative articles, and leaked database connected to money laundering schemes.

Findings: Such giant leaks like the Panama Papers, revealed three years ago, has serious impacts on policy making, even in the anti-money laundering field in the European Union. The purpose of money laundering is to hide the origin and legalize dirty money, therefore without insider information, for example transfers from banks and mails would be very hard to know about the process and regulate the field. Money laundering is also a threat not just for the financial sector but the whole economy.

Originality/Value: The topic is original, because this connection between leaks and anti-money laundering policy changes has rarely been subject of research that was also one of the limitations of the Thesis. That is also the reason behind I used sources like newspapers or database of investigative journalist organizations. The papers value also that I used real transactions from leaks thanks to Organized Crime and Corruption Reporting Project for get me access to their database.

Keywords: money laundering, policy, leak, investigation, financial crime, organized crime

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Table Of Contents

How Does Whistleblowing and Leaking Affect Anti-Money Laundering Policy Changes in the European Union?	1
Abstract	i
Acknowledgements	ii
Table Of Contents	iii
Introduction	1
CHAPTER 1 Definitons and basic informations	5
1.1 The laundry	5
1.2 Who blows the whistle and why?	6
1.2 The largest leaked documents ever, the Panama Papers and it's afterlife	7
1.3 Access to information: how it could help to combat corruption and money laundering? ..	11
Chapter 2 The threat of money laundering	14
Chapter 3 Who owns what?	22
3.1 Shell companies in the Spotlight: The layers of the cake	22
3.2 The beneficial owner and the beneficiary	27
Chapter 4 How the laundromats worked?	29
4.1 The Russian Laundromat	29
4.2 The Danske Bank Case	33

4.3 The Troika Laundromat	36
Chapter 5. The Impact of flowing dirty money in the European Union	41
5.1 Combating money laundering and cooperation between authorities in the European Union	41
5.2 Policy developments recently and their connection with whistleblowing and leaks in the European Union's level.....	47
5.3 Recent money laundering scandals and their revelation played an important role in the policy developments in the EU Member States	51
Conclusion and Recommendations	58
Conclusion	58
Policy Recommendations.....	60
Bibliography	62

Introduction

Exactly 30 years ago, in 7. April 1989 in the Radio Free Europe's Hungarian monitoring the author wrote a paragraph about a money laundering case in Bulgaria ("Osa Archivum Catalog," 1988). The document is in Hungarian, but it explains, that the American Fortune magazine accused the Bulgarian government that they helped for Turkish drug traffickers to launder dirty money around the amount of two million dollars. The document did not clarify how, but it says, that they bought gold bars from the money. I could not find any other data, unfortunately, but that year was very important in the history of fighting money laundering, because the very influential global anti-money laundering organization, Financial Action Task Force on Money Laundering was also established in the same year. Money laundering problems in a number of European banks have spelled out the crucial need for increased focus on measures to combat misuse of the banking sector for illegal activities. The infamous sequence of banking scandals in several European Union member states, including Cyprus, Lithuania, Latvia, Estonia, Malta, Germany, Austria, The United Kingdom, Denmark and Sweden has perfectly shown the severe weaknesses of the European Union's and her member countries' anti-money laundering (AML) system. Money laundering does not just undermine the trust and confidence in the financial sector, but also harms the economy.

The Russian Laundromat, the Danske Bank Scandal and the Troika Laundromat, respectively proved that combating illicit flows demands stronger EU-level role in AML supervision and law enforcement. All of the mentioned laundromats were uncovered with the help of whistleblowers, who sent to the Organized Crime and Corruption Project (OCCRP) or its local partners like the Berlingske in Denmark, Novaya Gazeta in Russia or 15min.lt in Lithuania an enormous amount of data about transactions. As OCCRP reported: "reporters from OCCRP and Novaya Gazeta in Moscow obtained a wealth of bank records which they then opened to investigative reporters in

32 countries.” (“The Russian Laundromat Exposed - OCCRP,” 20 March 2017.) The laundromats also showed, that the money laundering scandals involved not just organized criminals, but also politicians, government officials, business men and oligarchs, whose enrichment may have been originated from fraud, embezzlement of state contracts or tax evasion. The Panama Papers, the giant data leak ever showed how international corporations, politicians wealthy individuals are using every possible loopholes of the tax systems to ensure that tax authorities can collect as less amount is possible. The more than 11 million documents, analyzed and published by the International Consortium of Investigative Journalists, showed that the worldwide network of bogus firms in secrecy havens helps for the rich people and companies, such as the Apple and Nike, not just to avoid or evade tax paying, but also to create extreme wealth. Tackling money laundering is also sensitive issue for the euro area, because the national AML supervisory failures result in a reputational risk for the European Central Bank, not to mention the interference of Russia in EU domestic matters.

As the Panama Papers have shown, whistleblowing, leaking play a very important role in fighting money laundering. The secret information shared by the whistleblower is the key in any uncovered money laundering and corruption case. Consequently, strengthening cross-border cooperation between investigative journalists and also between authorities is crucial to combat money laundering. Nevertheless, it is also very important to strengthen the whistleblower protection in the member states of the EU. This thesis begins with clarifying the definitions I use and gives a broader picture about whistleblowing, leaks and also about money laundering and the threat of money laundering in the European Union, within the context of financial and organized crime. In this paper I do not analyze the financing terrorism part of money laundering, because it is beyond of my scope. For my research I used sources like policy documents, research papers, but, in several

cases I had to use online sources like newspapers as the Financial Times, or the website of the Organized Crime and Corruption Reporting Project and the International Consortium of Investigative Journalists, nearby the websites of central banks, financial authorities, or watchdog organizations. I also got access from the Organized Crime and Corruption Project for their database to the so called Russian Laundromat and the Troika Laundromat. I travelled to Sarajevo, in Bosnia and Herzegovina to OCCRP's headquarter, so I had the chance to dive into the database of the thousands of companies and their ten thousands of transfers. That could help me to better understand the process of money laundering, especially the layering and the integration part of the criminal action. I also gained a solid knowledge about how shell companies, firms in tax haven jurisdictions and their bogus network can help for organized criminals, corrupt politicians to hide and legalize their dirty money. I analyze the Laundromats and the Danske Bank's money laundering scandal in the fourth chapter. To better understand the influence of leaks for the anti-money laundering policy making process, I conducted interview with Kevin O'Connel, the member of the cabinet of Věra Jourová, European Commissioner for Justice, and Consumers and Gender Equality, and I also analyzed research papers, policy papers of international and national anti-money laundering policy makers. Unfortunately, I did not get answer for requested interview from the Estonian Financial Authority, and I did not have the chance to travel to Denmark to conduct interview with the head of the Danish Financial Authority because of the limitation of financial resources. Noting the limitations of this Thesis, it was very difficult to handle, that the Troika Laundromat was revealed in parallel with my research and writing time range, so I could not ask for more help from the investigative journalists of the Organized Crime and Corruption Reporting Project and their partner organizations, because they were very busy. It is also important, that they published several times very similar figures and data visualization which I wanted to use

in my Thesis from their database. But the largest limitation of the paper is the topic itself, for two reasons. First of all, the existing insights of financial crime are very limited because of the nature of the topic. Organized criminals, and corrupt politician usually want to hide their illicit funds. Secondly, the data at watchdog organizations and financial institutions are also limited, because of similar purposes. Thirdly, the affects of leaks for anti-money laundering policy making is, in my opinion an under researched topic. But that could provide the chance for further research, and data analysis, regarding the all Member States of the European Union, especially Cyprus, Malta, and the United Kingdom.

At the end of this thesis, I came to the conclusion, that whistleblowing and leaking are key sources for anti-money laundering policy makers. Because the detailed investigative articles about suspicious transactions, which could be connected to organized crime and/or corrupt activities, is very helpful for policy makers to easily understand what are the main problems with a country's, or the whole European Union's financial system, where and what are the loopholes used by criminals. Leaks, and investigative articles can also help to better understand the procedure, how shell companies and professional money launderers and banks can help for those criminals. The other finding of this paper that the Panama Papers and the Laundromats helped to understand, that beneficial ownership of companies must be publicly available, and, in overall, the beneficial ownership of any firm must be transparent. And for this, there is a crucial need of cross border cooperation, and later on, maybe to establish a European Financial Intelligence Unit. But the very first step is to strengthen whistleblower protection in the whole European Union, to make sure, that information will flow to the investigative journalists.

CHAPTER 1 Definitions and basic informations

1.1 The laundry

The Financial Action Task Force on money laundering (FATF) was established exactly 30 years ago by the G7 summit in Paris in 1989 to develop a coordinated international response to money laundering. The Financial Action Task Force (FATF) is an “independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF Recommendations are recognized as the global anti-money laundering (AML) and counter-terrorist financing (CFT) standard.” (About - Financial Action Task Force (FATF),” 2019.) In the view of FATF, “the goal of a large number of criminal acts is to generate a profit for the individual or group that carries out the act. Money laundering is the processing of these criminal proceeds to disguise their illegal origin. This process is of critical importance, as it enables the criminal to enjoy these profits without jeopardizing their source.” (“Money Laundering - Financial Action Task Force (FATF),” 2019) The purpose of money laundering transactions and activities is to conceal the origin of the proceeds, the dirty money, by a masking process so that they appear to have originated from a legitimate source, but where the person in question knows or assumes that such money is derived from criminal activity: individuals, organizations or networks that are involved for third party money laundering for fee or commission. They are experts, who usually are not involved in the criminal activity, instead, they help to hide ownership of shell companies, through which the money was transferred, and disguise the source of it. The clients of the professional money launderers are usually drug dealers, fraudsters, human traffickers

or any other criminal with the need to launder his/her illicit funds. “As such, professional money laundering networks may act transnationally in order to exploit vulnerabilities in countries and particular businesses, financial institutions, or designated non-financial businesses or professions. PMLs, themselves, pose a threat to the financial system, as they facilitate money laundering and criminality more broadly, profiting from these illegal activities. In this paper I will use the definition of money laundering to describe the phenomenon which is enabling criminals and corrupt politicians to evade anti-money laundering safeguards to enjoy the profits of their illegal activities. Professional money launderers (PMLs) are those” (FATF, 2018)

1.2 Who blows the whistle and why?

“Whistleblowers — insiders who expose corrupt or illegal activities — are an important source of information for journalists everywhere. From their position inside governments, companies, and other organizations, they can provide crucial leads, evidence, and sometimes “smoking guns” that expose everything from fraud and waste to criminal conspiracies and war crimes.” (“Whistleblowing,” 2019.)

Generally, whistleblowing activity depends on several factors, like the legal framework of whistleblowing protection of the country, and also on the regulatory responses on whistleblowing, how the country and the society reacts. As Hayes and Kapur raises the question: “What should an enforcement regime based on "tips" from whistle-blowers look like? In particular, how responsive should enforcement agencies be to, information brought to them by whistle-blowers, and how vigorous should be the punishment of malfeasance detected via this route?” (Antony Heyes & Kapur, 2009)

As they pointed out, a responsive policy regime might encourage whistleblowers to come forward with their information about malfeasance, but the “definition of whistle-blowing requires that the individual (a) acts to prevent harm to others, not him or herself, (b) while possessing evidence of intent that would convince a reasonable person.” (Lucas Graves & Shabbir, 2019)

1.2 The largest leaked documents ever, the Panama Papers and it's afterlife

After three years of the revelation of the largest leak of the history of journalism, the journalists of the German daily, Süddeutsche Zeitung, Bastian Obermayer and Frederik Obermaier, told in an interview for the International Consortium of Investigative Journalists (ICIJ), that “We still laugh when we recount how Vladimir Putin explained the hundreds of millions of dollars in the pockets of his best friend Sergey Roldugin. He told a live TV audience in Russia that Roldugin bought musical instruments for young, gifted Russians. Cellos and guitars for hundreds of millions. There must be a secret barn somewhere in Russia with all those instruments.” (“How Panama Papers – the story ‘too big for one news outlet’ – changed these reporters lives - ICIJ,” 2019)

But the situation regarding autocratic states, which leaders, politician and criminal hided and laundered dirty money in tax haven jurisdictions like Panama, Belize and British Virgin Islands, is not funny at all. Jan Kuciak, Slovakian investigative journalist and Daphne Caruana Galizia reported on the Panama Papers and its aftermath, and they were murdered. The law firm in Panama, Mossack Fonseca, where the leaked document came from, helped criminals and autocrats to hide their dirty money, but as the two German told in the interview: “the fact that, at the same time, nothing at all happened in Russia tells you probably more about the condition that the country is in.” (“How Panama Papers – the story ‘too big for one news outlet’ – changed these reporters lives - ICIJ,” 2019)

In democratic countries with good governance, like Iceland, where the Prime Minister Sigmundur David Gunnlaugsson was found in a company established by Mossack Fonseca in British Virgin Islands, resigned after two days. But, for example in Pakistan, as The New York Times reported, “Prime Minister Nawaz Sharif angrily rebuffed opposition calls to resign, defended his riches as legally acquired, and demanded that his opponents back up their allegations of wrongdoing.” (“Iceland’s Prime Minister Steps Down Amid Panama Papers Scandal - The New York Times,” 2016) Later of the Prime Minister Sharif was forced to resign and was sentenced to imprisonment. (“Pakistan PM Nawaz Sharif resigns after Panama Papers verdict - BBC News,” 2017) Deutsche Bank office in Frankfurt, Germany was also raided by the police in 2018 because of the Panama-Papers related alleged money laundering case. Moreover, the Frankfurt based financial institution is under investigation “as part of the ongoing U.S. Federal Reserve probe of the Estonian branch of Danske Bank’s alleged role in the Laundromat.” (“Germany Seizes 50 Mil Euros of Russian Laundromat Loot,” 2019) As Financial Times reported, “In January 2017, Deutsche agreed to pay \$630m to settle US and UK investigations into alleged mirror trades used to launder \$10bn out of Russia.” (“Deutsche Bank internal probe found €175m of Russian dirty money | Financial Times,” 2019)

Chinese Communist party’s leader’s relatives were also found in the Panama Papers. For example the daughter of the Propaganda Chief, Liu Yunshan, or the son-in-law of the Vice President Zhang Gaoli. But instead of resignations, the government censored the internet searches mentioned “Panama Papers.” (“China Censors Mentions of ‘Panama Papers’ Leaks - The New York Times,” 2016) In the paper Gauging the Global Impacts of the ‘Panama Papers’ Three Years Later, Lucas Graves and his co-author Nabeelah Shabbir analyzed the outcomes and impacts of the Panama Papers. They divided their outcomes of the collaborative investigation in four parts, which are

Deliberative, Individual, Substantive and Backlash. The latter is the case when journalist were under threat, and they also mentioned the two murdered journalist I have mentioned above. As they say, almost twenty percent of the countries were under investigation by some of the ICIJ project connected journalists, “have seen at least instance of a concrete reform, such as a new law or policy designed to address problems exposed in the reporting.” (Lucas Graves & Shabbir, 2019) According to the authors, in China reporters were obligated for not to write about stories related to the Panama Papers, and in the Democratic Republic of the Congo “communications minister publicly warned journalists to be ‘very careful’ about naming names appearing in the data.” (Lucas Graves & Shabbir, 2019) Most of the countries where those backlashes happened, appeared in regions with poor freedom of press. As they mentioned in the paper, most of the outcomes were deliberative, which means, that policy makers held formal discussions. Around 30 % were the individualistic outcomes, when sanctions, resignations, firings were applied against persons or entities. And substantive outcome, like policy or legislative change happened almost as much time as backlash.

Frequency of major impact types

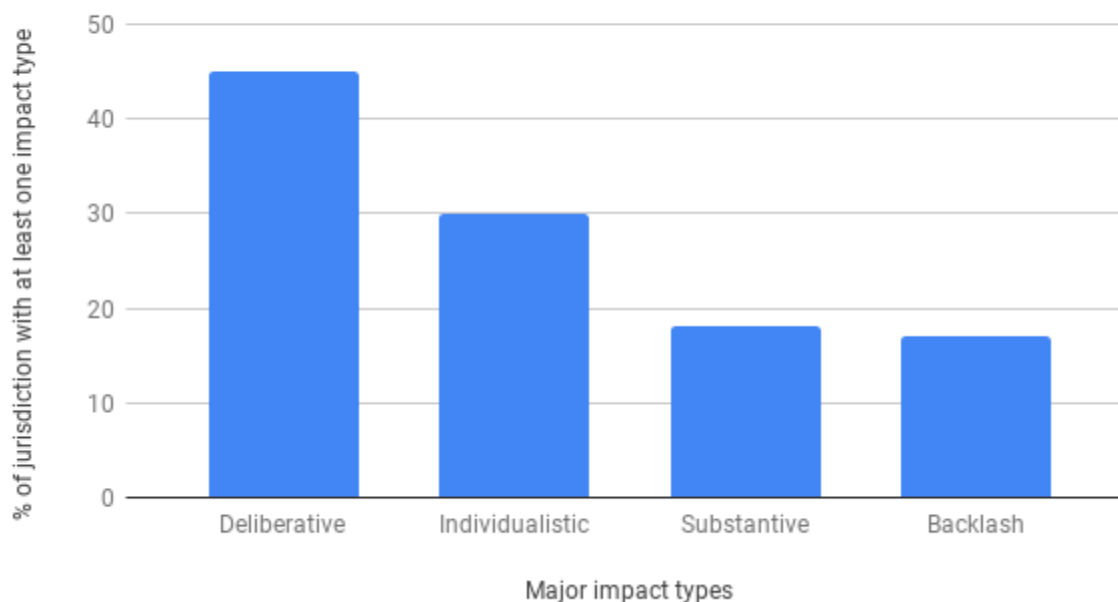


Figure 1: Frequency of major impact types Source: Lucas Graves and Nabeelah Shabbir (Lucas Graves & Shabbir, 2019)

From their second figure, which is about the impacts by country and category, that backlashes happened mostly in countries with low democracy, and where the freedom of press is also low. But typically in countries with authoritarian regimes, like Russia and Turkey were just backlashes without any other outcome, like individual or substantive. From the next figure it will be visible, in which countries which major impact types happened after the revelation of the Panama Papers. It could seem obvious, that in the European Union overall the two major types are deliberative and substantive, but after looking at the data of Slovakia and Malta, there are the backlashes, because of the murder of the investigative journalists.

Figure 2. Impacts recorded by country and category

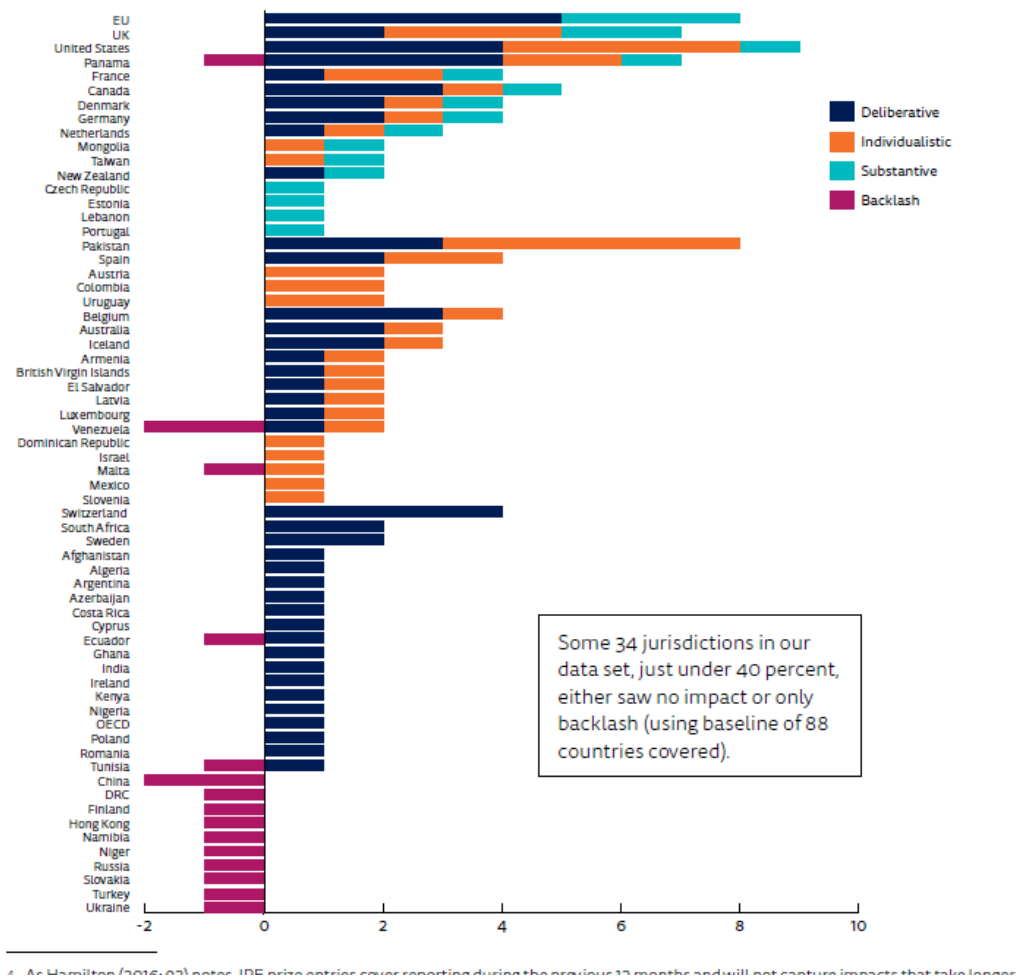


Figure 2: Impacts recorded by country and category Source: Graves and Shabbir (Lucas Graves & Shabbir, 2019)

1.3 Access to information: how it could help to combat corruption and money laundering?

Access to information is one of the keys to democracy. It is a critical tool to combat corruption to make people public documents available and it is enabling citizens to more fully participate in public life. That makes also governments more efficient, encouraging investors to invest in a particular country and, last but not least access to information is helping for citizens to exercise

their fundamental human rights. Transparency International's Corruption Perceptions Index and Bribe Payers Index are two examples of awareness-raising campaigns. In India there are also a similar 'I paid a bribe' sites as a kind of naming and shaming enterprise. They are also tools to uncover corrupt practices to make them public, and then mobilize active people to "do something." But who want do anything against corruption? Lot of anti-corruption and governance initiatives tries to monitor public authorities, for example, in Hungary the investigative portal, Átlátszó (it means in Hungarian Transparent) built up a Freedom of Information request tool, KiMitTud, which generates legally perfect information requests, and makes possible for everyone to get public data from governmental authorities. The Civio Foundation in Spain works very similarly with the faith of making their institutions more effective through monitoring public authorities.

Hence, if we only make all bids for government contracts public, if we allow people access to information, if everything becomes digitally accessible, then nepotism and corruption will be limited or disappear. This idea of transparency involves an assumption of pervasive openness. It also assumes that corruption invariably involves some kind of secrecy.

There is a website, called whatdotheyknow.com which made a step further in Freedom of Information requests. They make available online every data and document, which were requested through their website. But it is enough to enhance accountability? It surely helps for people, how are looking for information, but it is not sure that they can use them, or make them public. It can also help to increase the independence of the journalists, but not fully. It would be more important, to make all the leaked documents public, searchable, with free access. But, in this case, there is the problem of withholding information.

The large investigative organizations, like the International Consortium of Investigative Journalists or the Organized Crime and Corruption Reporting project are organizations which are

trying to help journalist uncover corruption and wrongdoing, but, just for those journalists which are members of their network. It is a question, that in a very much globalized economy, where politicians from Hungary are able to hide their money in a bank account in the Cayman Islands or in Malta, how helpful is for public good if just the member journalist are able to use the data from the largest leaks, which could prove their theory about wrongdoing, or help to find the evidence about tax evasion, corruption or money laundering.

Chapter 2 The threat of money laundering

Estimates related to the amounts of money laundered globally and annually are between 2 % and 5 % of the global GDP, the “best estimates of the amounts of money that are laundered are close to US\$ 1,6 trillion or 2.7% of GDP in 2009 (confidence interval: 2.1%-4.0%).” (United Nations Office on Drugs and Crime, 2011) That is the so called, consensus range, which is widely cited by the literature, but originally was estimated by the International Monetary Fund in 1998. The estimation also depends of the research methodology; if tax evasion –related laundering is also involved in the calculation, the laundered amount could be closer to the upper end of the consensus range, on the other hand, if political corruption, fraud and embezzlement is also involved in the calculation, the laundered amount would exceed the consensus range. If just transnational crime is involved in the methodology, then the amount would be closer to the lower end or below of the range. (United Nations Office on Drugs and Crime, 2011) The report of the United Nations Office on Drugs and Crime, instead of trying to estimate the global cross border illicit flow from transnational crime, it focuses on a “prominent” example of the organized crime sector, which is the analysis of the cocaine retail. The UNODC report estimated the global cocaine retail sales profit within a range of US\$75 and US\$100 billion annually. The researcher worked with a retail sales amount of the particular drug around US\$85 billion and gross profit of US\$84 billion, from which around 62 billion was generated in countries of North America and West and Central Europe. The calculation suggested, that “46 % of gross retail profits and 92 % of gross cocaine wholesale profits were available for laundering at the global level.” (United Nations Office on Drugs and Crime, 2011) This result, which is an overall 62 % of gross profit available for laundering, is in line with the 60-80 %, suggested by the literature, and near to the assumption of the Financial Action Task Force, which says that around 70 % of the drug related profits are

laundered. (United Nations Office on Drugs and Crime, 2011) The dirty money (estimated annually and globally around US\$ 2.1 trillion) generated and laundered (some US\$ 1.6 trillion) by organized crime, helps not just to expand the transnational criminal network, but also has socio-economic consequences, it undermines the implications of investment in the legal economy, it influences prices, the level of consumption, exports and economic statistics. The UNODC paper mentions an example: an illicit fund investor's decision is more likely motivated by the risk aversion of detection rather than the profit maximization. (United Nations Office on Drugs and Crime, 2011) "Research undertaken in industrialized countries has found that increases in money-laundering activities were associated with reductions in overall annual economic growth rates. One study, for instance, found that each US\$1 billion laundered reduced overall economic growth by 0.04-0.06 percentage points in the 17 researched OECD countries." (United Nations Office on Drugs and Crime, 2011) How attractive is a country for money launderers, depends on several factors, including its financial regulatory regime, the anti-money laundering legislation and capacity of the banking sector, whether the particular country shares common language with the "source country", or they have common borders, and the level of trade between those countries. (Prof. Dr. Unger & et.al, 2013) There are two components of threats for a particular country: firstly, the proportion of proceeds of crime committed in that country, and the level of money laundering, which depends on the level of the profitability of that particular crime, and also the vulnerability of the country to attempts to launder money. Secondly, the "proceeds of crime committed in other countries that MIGHT BE laundered in that country, which depends on:

- Levels and profitability of crime in OTHER countries, and

- That country's vulnerability to attempts to launder money, including its GDP per capita, corruption level, financial capabilities, trading, cultural or linguistic links, relative to the other countries.” (Prof. Dr. Unger & et.al, 2013)

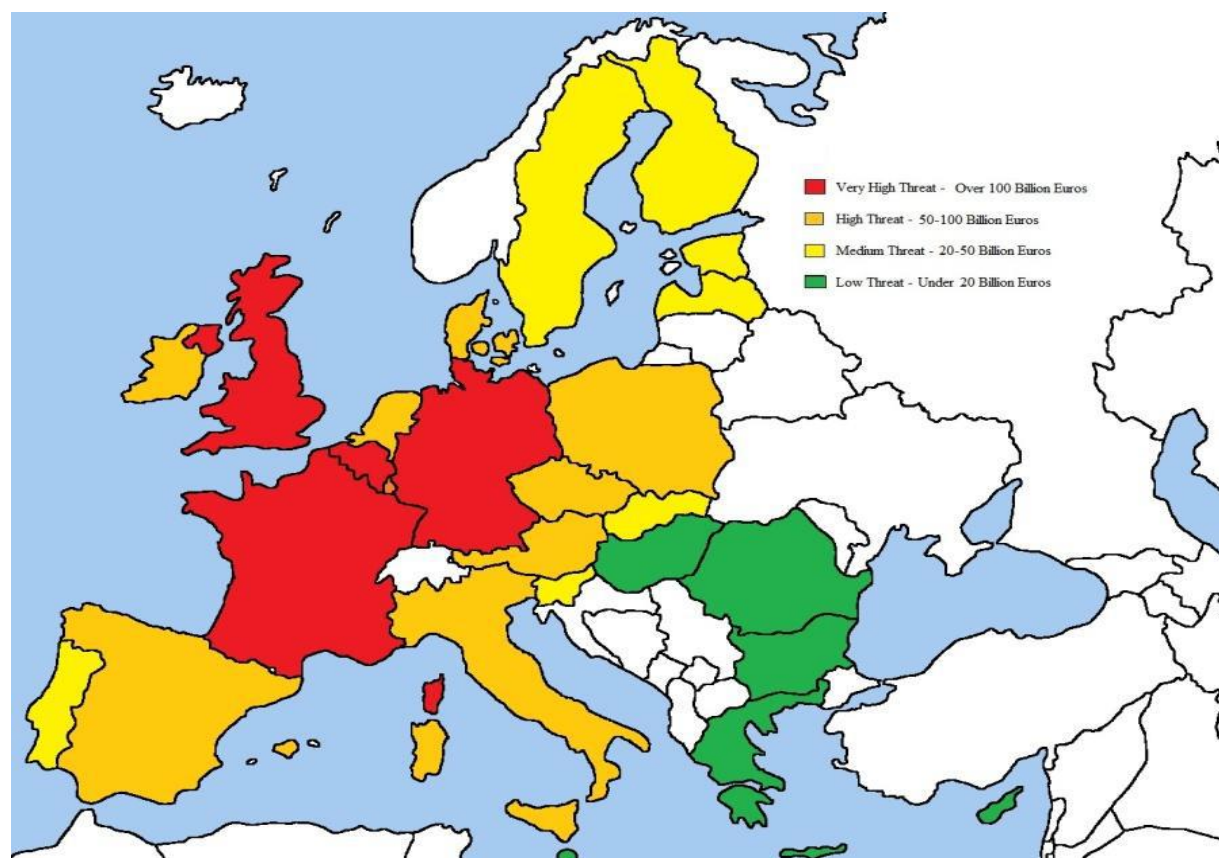


Figure 3: Mapping of threat, estimated by the ECOLEF document (Prof. Dr. Unger & et.al, 2013)

The key parameters of the attractiveness of a country regarding money laundering used in the ECOLEF report are included also the foreign direct investment inflow and the financial services export as a % of the country's GDP, the Financial Action Task Force recommendation compliance index, the human development index, and the extent of the shadow economy in the country. (Prof. Dr. Unger & et.al, 2013) The authors of the ECOLEF papers discussed, that the high ranking of the United Kingdom, Luxemburg and other Western-European countries make sense, because they have relatively sophisticated financial systems, and “relatively high GDP per capita levels, and

their proximity and trade, language and cultural links to a wide range of proceeds of crime generating countries. Hot money will generally flow from the east to the west in search of safer havens for investment.” (Prof. Dr. Unger & et.al, 2013) Money launderers and other criminals are also economic actors, so, even they not follow criminal law they have to follow the law of economics, thus, maximize profit with the minimum risk. (Prof. Dr. Unger & et.al, 2013)

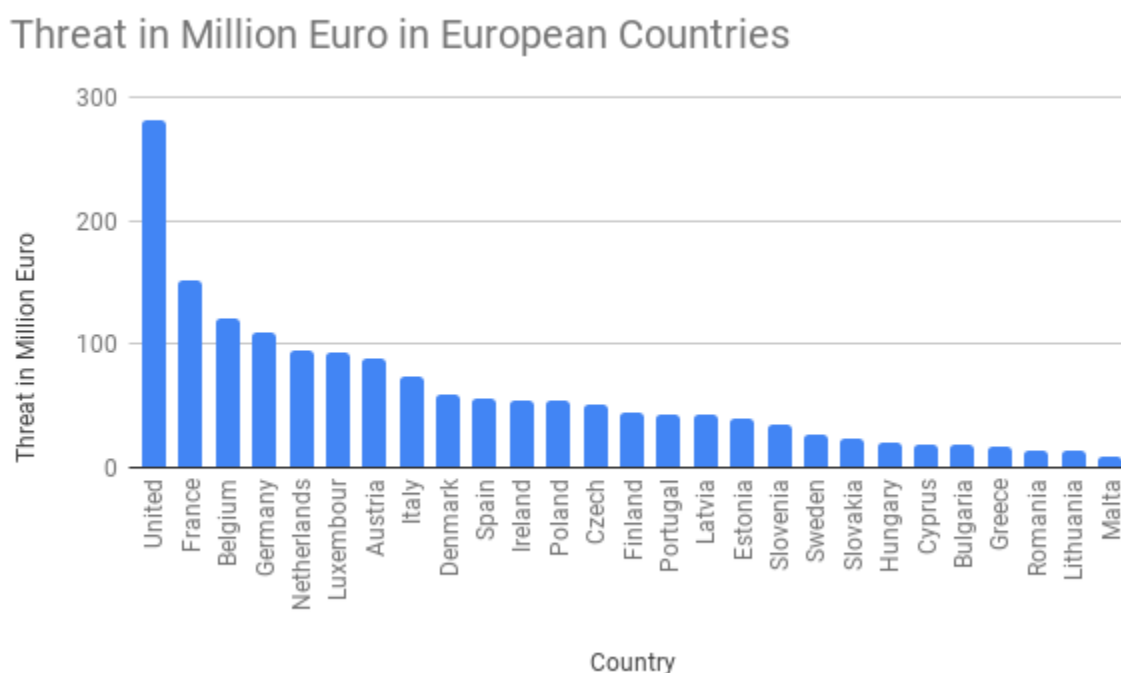


Figure 4: EU Countries by Estimated Threat in 2009 (Prof. Dr. Unger & et.al, 2013)

Therefore money launderers can try to legalize their money either domestically, because they know the political economy and the business characteristics of their home country, and they could be also well-connected, or a neighboring country, especially, if that country shares common language or trade culture. (Prof. Dr. Unger & et.al, 2013) The authors of the ECOLEF report clarified, that “In a perfect world, the results of such analysis could be compared with actual data, but such data are not available, and probably never will be. The approach we are forced to take is to assess the

credibility of the results, by reference to known facts.” (Prof. Dr. Unger & et.al, 2013) Even though the authors had to work with the available facts, it might would be interesting to add to their approach some more characteristics of the country, which could be the political connection with other countries with higher amount of launderable money, and their political system, whether it is autocratic, hybrid regime, or full democracy, the level of press freedom in the particular country, and the level of corruption of those countries. The high level of corruption serves the power of the incumbent, through narrowing down the distribution of private goods. And corruption is a source of a significant part of the launderable money in a particular country. For example, the ECOLEF report describes the most prevalent types of crimes generating launderable money in the case of Hungary, nearby the illicit narcotics-trafficking, prostitution, trafficking in persons, fraud and organized crime, as “other prevalent economic and financial crimes include official corruption, tax evasion, real estate fraud, and identity theft.” (Prof. Dr. Unger & et.al, 2013) Moreover, as Patricia Moreira, the managing director of Transparency International stated when the watchdog organization published the Corruption Perception Index of 2018 in this year: “Corruption chips away at democracy to produce a vicious cycle, where corruption undermines democratic institutions and, in turn, weak institutions are less able to control corruption.” (Transparency International, 2019) In this ranking, Russia was placed at the 138. From the 180 countries, with score 28. In this ranking 100 means the cleanest country, and 1 the most corrupt. Hungary scored 46, and placed on 64th cleanest country from the 180. As a critique for this ranking, I have to mention, that Latvia and Lithuania are ranked in the places 41 and 38, respectively, and Estonia was placed on the 18th with a score of 73. Those Baltic countries were involved in the largest money laundering scandals of Europe in the last ten years, when billions of dollars of dirty money from ex-soviet countries has flown through of those states. Not to mention Denmark, which is at

the first place of Transparency's CPI ranking, but as the Transparency also mentioned it, the countries well known and very much admired financial institution, Danske Bank played also a very important role in that money laundering scheme. (Transparency International, 2019) Bueno de Mesquita describes also Russia as one of the world's most corrupt state, and mentioned the low salaries for police officers as common feature of small coalition in the country for all regimes. As he describes, the regime held the loyalty of the police forces to let them being corrupt, to make extra money for themselves through bribery, but the regime also makes sure, that the police should know, if they waver in loyalty, there is a high chance that they will be prosecuted for corruption. Mesquita's example for what risk the policemen have to take is Mikhail Khodorkovsky, the former richest man in Russia, who was also prosecuted and imprisoned for corruption, when he was not loyal anymore for the Putin government.

Mesquita also mentioned in his book another Russian police officer, Alexei Dymovsky, a corrupt policeman in Novorossiysk, who was prosecuted, imprisoned after he explained in a video, how the corrupt system of the Russian police was working. After his whistle-blowing he became very famous in Russia, but infamous in Russia's central government, which "passed a law imposing tough penalties on police officers who criticize their superiors. As the Times notes, the law has come to be known as "Dymovsky law." (Bruce Bueno De Mesquita & Smith, 2011)

This measurement is beyond the scope of this paper, but it could be considerable for future researches. In the point of view of the ECOLEF authors, the level of threats can be very high in small countries, like Luxemburg, Malta or Estonia, because they are surrounded by much larger states which are generating giant amount of money, which can be potentially laundered in a particular, or in more countries.

In that sense, the authors were right. One of the country they mentioned in this paragraph, Estonia was the main actor of one of the largest money laundering schemes ever, the Danske Bank scandal. As the Financial Times explained the story: “Danske Bank, Denmark’s largest lender, has gone from being one of Europe’s most respected financial institutions to getting caught red-handed in one of the world’s biggest money laundering scandals. A US Department of Justice investigation into the affair, which saw €200bn of non-resident money flow through Danske’s Estonian branch from 2007 until 2015, has embroiled Deutsche Bank, Bank of America and JPMorgan Chase.” (“Danske: anatomy of a money laundering scandal | Financial Times,” 2018)

According to the ECOLEF group’s analysis, the higher the GDP of the trade partner, the more attractive the partner is, because it is easier to “hide” proceeds of crime in a large economy. Regarding the financial services, the logic is very much similar: the more open the financial sector of partnering economy is, the more attractive the partner is. Common culture and languages also increase the attractiveness of the partnering country as “these aspects tend to contribute to higher trust and hence to ease of conducting (licit as well as illicit) business.” (Prof. Dr. Unger & et.al, 2013) The authors mentioned also, that drug traffickers might launder in that countries which allows easy integration of large sums. Criminals already found out a sophisticated way of laundering vast amounts: they often use the services of cash controller networks that are able to transfer large sums in their behalf. “These international controller networks have the capacity to receive, handover and transfer criminal proceeds, while charging a processing fee. Generally the structure of these networks consists of individuals who control, co-ordinate, collect and transmit illicit funds, and who operate together to negotiate deals.” (FATF, 2018)

These networks are usually orchestrated globally, and through an account settlement system, and they also involve unwitting third party. For example, the Organized Crime and Corruption

Project's last large investigation, the Troika Laundromat tells the story of Armen Ustyan, who was in papers a central figure of many of the transactions involving companies from the Laundromat, but, it turned out that he had never heard about those companies and "The Armenian said he knew none of this, though he did recall a slim connection to Troika Dialog: While in Moscow looking for work, Ustyan stayed with a Russian Armenian whose brother he said worked for the investment bank and helped him find employment." ("Vast Offshore Network Moved Billions With Help From Major Russian Bank - OCCRP," 2019) The Troika Laundromat, represents the largest dataset released of banking information ever, and it involved 1,3 million leaked transactions from 238,000 companies. ("Vast Offshore Network Moved Billions With Help From Major Russian Bank - OCCRP," 2019)

"The main purpose of the system we've named the Troika Laundromat was to channel billions of dollars out of Russia. But it was much more than a money laundering system: The Laundromat allowed Russian oligarchs and politicians to secretly acquire shares in state-owned companies, to buy real estate both in Russia and abroad, to purchase luxury yachts, to hire music superstars for private parties, to pay medical bills, and much more." ("Vast Offshore Network Moved Billions With Help From Major Russian Bank - OCCRP," 2019)

Chapter 3 Who owns what?

3.1 Shell companies in the Spotlight: The layers of the cake

In this chapter I will write about what role are playing secrecy haven jurisdictions and shell companies in the money laundering process. This kind of firms are very important in the layering stage of the money laundering process, when the origin of the dirty money is hided behind bogus network of firms in several countries. Secrecy havens – jurisdictions with little or no tax liability which shares limited or no financial information about the real beneficial of the ownership of the particular company - were being a host of nefarious activities; “from tax evasion to corruption and even to child pornography.” (Stiglitz & Pieth, 2016) According to the report what arose from the involvement of Stiglitz and Pieth with a Committee of Independent Experts, established by the Republic of Panama after the Panama Papers Scandal, there is a “global consensus” that the tax-havens-jurisdictions are undermining the standards of corporate finance and fiscal transparency.

Moreover, these secrecy – jurisdictions are not just the hotbed of tax avoidance and evasion but also for money laundering. (Stiglitz & Pieth, 2016) All of the experts in this field agree, that these activities are contributing to a very high level of wealth inequality. These types of wrongdoing were done not just by criminals, but also celebrities, politicians, oligarchs. It is very important to recognize that money laundering, tax evasion and tax avoidance through secrecy-havens harms domestic innovation and creates the elite class more benefits and there are also huge social costs, inequality rises all over the World.

The Organization for Economic Cooperation and Development (OECD) is developing a system that will share tax data among 90 countries. In 2013 the OECD published the report Addressing Base Erosion and Profit Shifting, and later developed the Action Plan on Base Erosion and Profit

Shifting. “The project achieved a consensus among G20 countries on four minimum standards: model provisions to prevent tax treaty abuse, standardized Country-by-Country Reporting, re-launching of the FHTP peer review process to address harmful tax practices and an agreement to secure progress on tax dispute resolution through the so called mutual agreement procedure.” (OECD, 2017) Where criminal activity does cross national boundaries, the amounts involved can be staggering. Issues of financial crime are of concern to all countries, but particularly to developing countries. Illicit financial flows resulting from financial crimes strip resources from developing countries that could finance their long-term development. Although it is difficult to estimate the total amounts at stake, experts agree that the amounts at stake are vast. The effective exchange of information between tax administrations is needed, according to Stiglitz. In the next graph I will show, that the companies in the giant leak, called Panama Papers, which jurisdictions were the most popular, regarding the place of the incorporation of the firms. It is very visible that around 50 % of the firms, appeared in the leaked documents from Mossack Fonseca, were established in the British Virgin Islands. The second most popular with some 48 thousand firms was Panama, the third the Bahamas. According to the International Consortium of Investigative Journalists, Mossack Fonseca “worked with more than 14,000 banks, law firms, company incorporators and other middlemen to set up companies, foundations and trusts.” (“Explore the

The 10 most popular tax havens in the Panama Papers

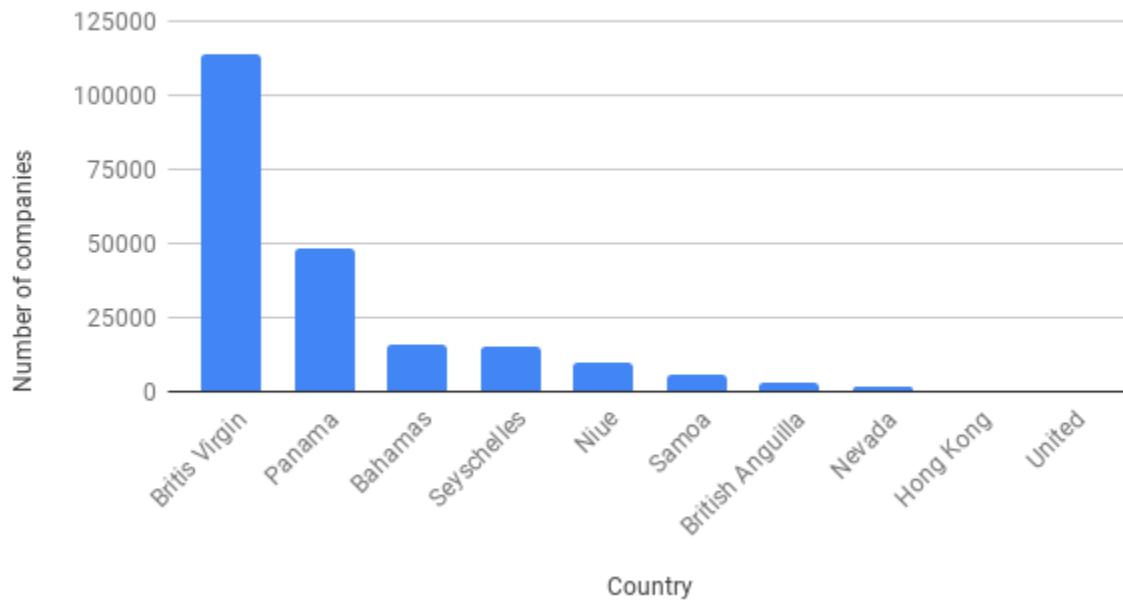


Figure 5: The 10 most popular tax havens in the Panama Papers Source : International Consortium of Investigative Journalists (ICIJ) ("Explore the Panama Papers Key Figures - ICIJ," 2019)

The stories are almost the same or very similar: corporations store their profits in tax havens, like Cayman Islands, British Virgin Islands or the Bermuda, use trusts, foundations to hide their money sometimes from tax authorities. Some of these activities are completely legal, but from the point of view of the tax payer individuals and companies these dealings are completely illegitimate. For example, tax avoidance practices are legal and shell companies can help for firms, including multinationals to pay less tax than it is required by law, they can avoid tax payment on profit, because they declared it in another country as it was earned. Such giant companies like Google or Amazon have been linked to shell companies for that reasons. (Vail, 2018)

A shell company is "that has no significant assets or ongoing business activities and "has disguised its ownership" in order to operate without scrutiny from law enforcement or the public. (Vail,

2018) Despite the lack of business activity and assets, these firms are sometimes used to transfer large amount of money, globally, without the disclosure of the beneficial owner of the company. (Vail, 2018) Moreover, these companies are easily set up by hired registered agents, who has no real relationship with the real owners of the firms. Furthermore, in some jurisdictions those registered agents who represents the shell company can be also another firms, another shell companies. (Vail, 2018)

“Over years and with digitalization the lack of transparency posed by secrecy jurisdictions have increased and abused the global corporate and financial system. “Some people consider any tax rate above zero to be too high”– says Jan Hildebrand, who leads the Handelsblatt’s coverage of tax, budget and economic policy. (Hildebrand, 2017) From the aspect of globalization there is a broad agreement that secrecy havens helps tax avoidance and can also facilitate tax evasion, corruption, narco-trafficking and other criminal activities. But not all names appeared in the 11.5 million leaked documents in the Panama Papers are criminals and similarly, not every offshore or shell company is hiding criminal activity. According to Lawrence J. Trautman, if a country is well-known from his political and/or financial instability, it “it seems logical and reasonable that you will seek to diversify your assets away from such known risks.” (Lawrence J. Trautman, 2017)

To see, why could be shell companies suspicious regarding money laundering, it is important to see the whole process from the very first steps. Stage 1 is when the ‘dirty money’, the funds are transferred to, for example to professional money launderer, electronically or physically. If it is in cash, it will be deposited in a bank account. Criminal activities from grand corruption, embezzlement, fraud or tax evasion usually are held in bank accounts, unlike proceeds from human trafficking or drug dealing. But the dirty money from fraud may end up in cash and the illicit gain from drugs may end up in a ‘clean’ bank account in Switzerland or in Lichtenstein. (FATF, 2018)

The next figure of the Boston Consulting Group's Global Wealth Report stresses that Switzerland still the largest offshore center not just in Europe, but globally.

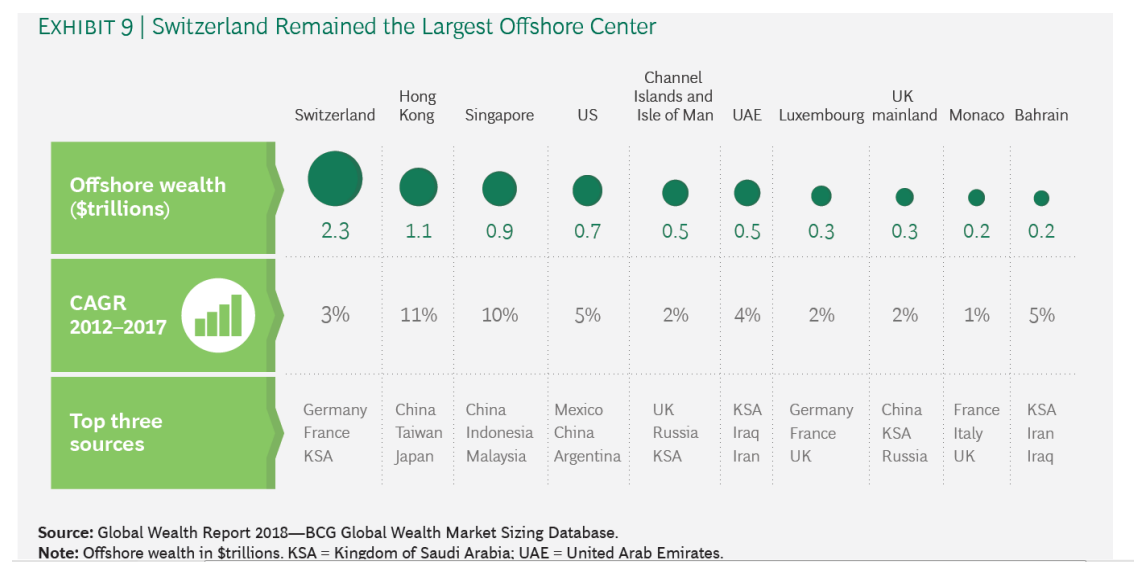


Figure 6: The Boston Consulting Group: The Global Wealth 2018

“Criminals who obtain proceeds in a form of virtual currency (e.g. owners of online illicit stores, including Dark Web marketplaces) must have e-wallets or an address on a distributed ledger platform.” (FATF, 2018) Stage 2 is the layering. In case of cash the mechanism includes for example fictitious trade and account settlements. Funds on bank accounts are moved through on difficult layering schemes and proxy structures, which are usually network of shell companies and their accounts established abroad. (FATF, 2018) The funds from different clients are mixed within the same accounts, which makes the tracing of funds coming from a particular client more difficult. (FATF, 2018) These shell companies are usually in secrecy jurisdictions like Cyprus, Malta, Lichtenstein, Switzerland, British Virgin Island, the Cayman Islands, or in Panama.

The last, 3rd stage is when the money is handed back to the “original” owner, through an account which is controlled by the client, or their “close associates, or third parties acting on their behalf.” (FATF, 2018) who gave it for the professional money launderer. The money can be invested in

real estate abroad or in the country of origin of the dirty money, or luxury goods like jewels or yachts, or other companies abroad or in the home country as Foreign Direct Investment.

3.2 The beneficial owner and the beneficiary

Most of the cases to identify the beneficial owner of a company or a network of companies which were set up by criminals is very difficult. A joint report of the Financial Action Task Force and the Egmont Group of Financial Intelligence Units, which analyzed more than a hundred case studies from the whole Globe and concluded that despite the increasing efforts of fighting money laundering globally, the misuse of legal persons and arrangements is increasing. (FATF – Egmont Group, 2018) The beneficial owner, according to the Financial Action Task Force Egmont group report is: “the natural person(s) who ultimately own(s) or control(s) customer and/or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control over a legal person or arrangement.” While an asset’s transactions’ beneficiary can be legal person or arrangement, to find out who is their beneficial owner requires the discovery of the natural person(s) who ultimately control or benefit from the legal person or arrangement. (FATF – Egmont Group 2018) Criminals are using a range of tricks to hide and control their illegally gained assets and profits, usually with the combination of direct and indirect ownership chains, involving nominee shareholders and directors, intermediaries or ‘straw men’ like family members, other relatives, friends, or people, hired from the street. For the identification of the beneficial owner through those ‘straw man’ network happens most of the times, and the Financial Action Task Force Egmont Group report presented, “While the appointment of nominees is lawful in most countries, the ongoing merits of this practice are questionable in the context of the significant money laundering and terrorist financing

vulnerabilities associated with their use.” (FATF – Egmont Group 2018) In schemes designed to keep secret the beneficial ownership the use of specialists and professional intermediaries is key, particularly in cases where proceeds from criminal activities are involved. Especially, trusts and service providers are significantly overrepresented in the population of professional intermediaries which are involved in establishment of legal arrangements and bank accounts. (FATF – Egmont Group 2018) In this chapter I gave a picture about the structures of shell companies and the importance of the beneficial ownership disclosure. This topic will come up in the following chapters, because the information about beneficial ownership of shell companies is a key to investigate money laundering cases. But it will come up also later, when the policy making will be the scope of the last chapter.

In the next chapter I will analyze three cases, when whistleblowers leaked documents from banks and other institutions for investigative journalists to uncover money laundering schemes. The Russian Laundromat, the Danske Bank case and the Troika Laundromat will help to understand, how dirty money had flown into the European Union. Which banks helped for organized criminals and corrupt politicians to legalize their illicit proceeds? And, exactly, how much money they laundered? Just a catchy insight before the next chapter: EUR hundreds of billions had flown through the laundromats and most of the money came from Russia and from ex-soviet countries.

Chapter 4 How the laundromats worked?

4.1 The Russian Laundromat

The Estonian firm, Green Roscha OU, based in Tallin, received 30 payments, from three companies in 2013 and 2014. These firms were Seabon Limited, Alaro Business LP, and Stramtrade Services Ltd, all firms are registered in the United Kingdom. According to the dataset of the Organized Crime and Corruption Reporting Project, which for I received access to analyze the leaked documents of the Russian and the Troika Laundromats, the payments Green Roscha received from the firms were altogether close to US\$ 16,5 million.

Paymentst for Green Roscha in Estonia 2013-2014(OCCRP data)

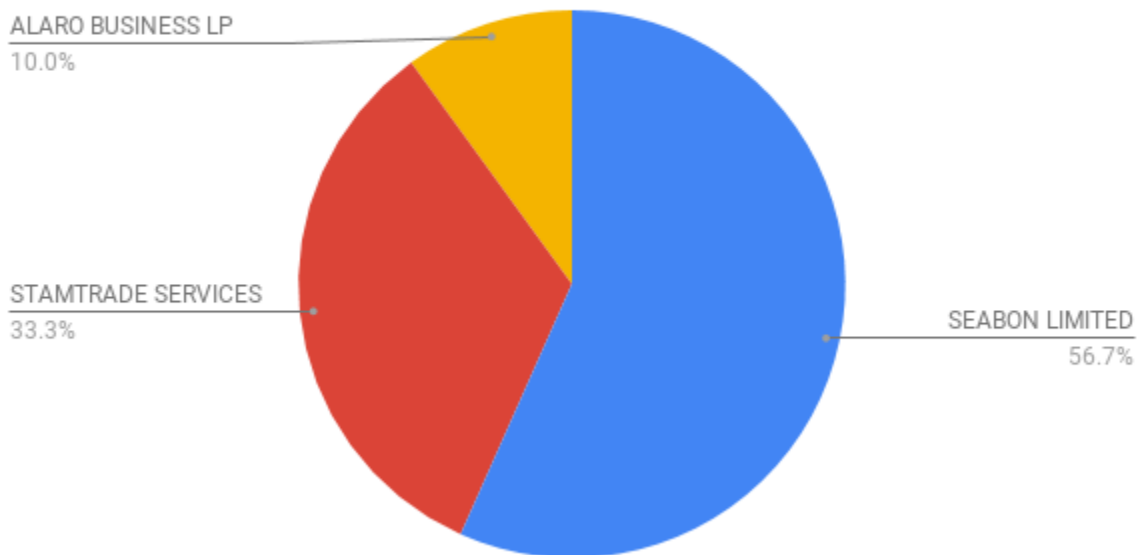


Figure 7: Payment for the firm Green Roscha in Estonia 2013-2014 Source: OCCRP.data

Seabon, Alaro, and Stramtrade were not the original sources, those companies were just one stage of the layering process of a giant money laundering case named by the Organized Crime and Corruption Project: The Russian Laundromat. Seabon, Alaro and Stramtrade received payments

from banks and shell companies. For example, Seabon received 3000 payments from sources, including Svetlana Mocan, a bailiff in Moldova, who was the first stop of the money from Russian companies. Her bailiff account was one of the sources of the channel. In the next table I collected all the payments which were transferred to Seabon Limited in the years of 2013-2014. On the left side of the table with the firms which transferred the money, and on the right side the total amount.

Company	Amount
ALARO BUSINESS LP	\$3,055,800.00
CALDON HOLDINGS LIMITED	\$179,900,100.00
CHESTER (NZ) LIMITED	\$214,350,800.00
DENISON LIMITED	\$178,210,000.00
BUZADJI Olga	\$3,739,834.00
CHIHAI Anatolie	\$3,469,633.00
GRIDEN DEVELOPMENTS LIMITED	\$167,960,000.00
MOCAN SVETLANA	\$1,887,110,560.00
RONIDA INVEST LLP	\$90,282,000.00
STAMTRADE SERVICES LIMITED	\$121,045,170.00
THE NATIONAL BANK OF RASAL-KHAIMAH	\$545,230.00
TOTTENHAM MANAGEMENT LTD	\$85,626,000.00
WESTBURN ENTERPRISES LIMITED	\$252,432,060.00

Figure 8: Payment for the shell company Seabon Limited in 2013-2014 Source: OCCRP.data

The deposited money on her account in Moldindconbank, then went further through a bogus shell company network including those mentioned in the table through a Latvian bank, Trasta Kommercbanka, and then a Latvian company, Dilnoro Group. According to OCCRP, not just Svetlana Mocan was the only official in Moldova, who helped to launder the Russian dirty money. As the investigative group reported, more than 20 judges and 15 courts helped to launder the money. “Over three years, they issued more than 50 court orders certifying about US\$ 20 billion in debt. This is a staggering amount for a country such as Moldova that had a GDP of just under

US\$ 8.5 billion in 2013. Some of these judges are now under investigation while others have resigned.” (“OCCRP - The Russian Laundromat,” 2014) Thanks to the data visualization of the project, from the next picture is very understandable how the Russian Laundromat worked, and how were shell companies involved in the layering process and how the proceeds from fraud and criminal activity were integrated in the European banking system. (“OCCRP - The Russian Laundromat,” 2014) This graphic of the Organized Crime and Corruption Reporting Project explains the vicious circle of the money in the so called Russian Laundromat.



Figure 9: The way of the laundered money in the Russian Laundromat scheme. Source: Organized Crime and Corruption Reporting Project (“OCCRP - The Russian Laundromat,” 2014)

The Russian Laundromat worked in that way:

1. Russian professional money launderers established companies overseas.
2. Those companies signed contracts about debts, one company became creditor, the other one debtor, but no money changed hand in the reality
3. The debt has a guarantee by one or more Russian company or companies, this stage involved always a Moldovan citizen.
4. One company defaults, and the other, the creditor has the chance to call for the guarantee from the repayment from the Russian firm
5. Because the guarantee was involved a Moldovan person, the Moldovan court has the obligation to solve the problem. Thus, the laundromat needed also the corrupt judges to be sure, that the decision will be same: a court order that the Russian company must honor the guarantee and repay the debt.
6. Always an appointed judicial executor-who are involved in the scheme- to arrange the transfer. That is how Svetlana Mocan comes into the picture: with opening an account by the Moldindconbank, where the Russian company can deposit the fake unpaid debt.
7. Part of the money were spent on luxury goods, but most of the more than US\$20 billion were channeled to Trasta Kommercbanka, and from that financial institution the money went through several shell companies and accounts. (“OCCRP - The Russian Laundromat,” 2014)

4.2 The Danske Bank Case

Howard Wilkinson, the former head of Danske Bank's trading unit in the Baltics between 2007 and 2014, at the time, when 200 billion euros dirty money has flown through the Estonian branch of the financial institution, the whistleblower who exposed the scandal that a major European bank helped in the process of the 2/3 of the suspicious payments. "A Deutsche Bank spokesman confirmed in a statement to Reuters the lender acted as a correspondent bank for Danske in Estonia." (Jensen & Gronholt-Pedersen, 2018) Wilkinson also named two U.S banks involved in the handling of dollar payment for the Estonian branch of Danske. "No one really knows where this money went. All we know is that the last people to see it was these three large banks in the U.S. They were the last check, and when that failed, the money was into the global financial system," Wilkinson said. (Jensen & Gronholt-Pedersen, 2018)

To follow the money in the case which involved the Estonian branch of the well-known Danish lender, the Danske Bank, is not easy at all. According to the report of the Danish Financial Authority, the Russian Central Bank warned them about the money laundering risks related to Russian citizens in the Danske Bank's Estonian branch. After the Danish authority asked Danske for a report, the bank's Head of Legal Department and the Chief Executive answered for the authority, that there were no problems regarding suspicious money laundering activity at the Estonian branch of the company. (Danish Financial Authority, 2019) According to the Danish Financial Authority, which explains how the supervision of Danske's Estonian branch happened, it turns out, that the authorities had just minor concerns until 2014. In that year annexed Russia the Crimea, and according to the reports of the Financial Times, it might changed "the tolerance of Russian money in the financial system greatly." ("The Russian shadow over banking's Nordic noir | Financial Times," 2019) In the inspections in 2010, 2011 and 2015 the Danish Financial Authority

did not examined the Estonian branch of Danske, because it should have been the job of the Estonian Financial Authority. I tried to contact on this matter with the Estonian Financial Authority, but they did not answer for my question until the deadline of this paper. According to the report of the Danish Financial Authority, which mentions a follow-up inspection in 2015, the when they “found that, contrary to what Danske Bank had stated in November 2012, the bank did not sufficiently live up to several of the orders issued in 2012, including in particular the order regarding monitoring transactions related to correspondent banking relation-ships, and that significant risk information in the 2012 report remained relevant.” Regarding the Crimea war the Financial Times reported: “It is no coincidence that some regulators and banks appear to have woken up to the risks around 2014 and 2015. That is when Estonia’s regulator started a series of actions that led it to closing first Danske’s non-resident activities and then its entire operation in the country.” (“The Russian shadow over banking’s Nordic noir | Financial Times,” 2019) Kilvar Kessler, who became the head of the Estonian regulator in 2014, was cited in an article also in the Financial Times, where he recalled a discussion between himself and a senior Danske executive in Estonia. He stated that the bank misled the authority, and as Kessler told for Financial Times, that he asked that executive the following question: “Estonia is a member of NATO. At the same time, you are exercising this type of business [involving Russian money]. What the hell are you doing?” (“How Estonia became centre of Danske money-laundering scandal | Financial Times,” 2018) The Danish parliament’s tax committee investigated after the revelation of the Panama Papers, turned out that the Danske bank had just seven costumers with firms registered at the law firm, Mossack Fonseca. Later on the bank get the information from Estonia that in that branch was more than 70 costumers with companies registered by the Panamanian law firm. (Danish Financial Authority, 2019) The Estonian branch played also a significant role in the Russian and Azerbaijani

Laundromats with the suspicious transactions. (“Report: Russia Laundered Millions via Danske Bank Estonia,” 2018.)

The story of the whistleblower, Howard Wilkinson, who is not named in the Danish authorities report, but later on he informed the press and the Danske Bank too, that he exposed the scheme. (“Danske Bank whistleblower was British executive in Estonian branch | Financial Times,” 2018)

He is cited word by word here, as he is cited in the report of the Danish Financial Authority.

“The bank knowingly continued to deal with a company that had committed a crime (probably there is some tax fraud here too)”

“An employee of the bank co-operated with the company to fix the ‘error’”

“The bank continued dealing with the company even after it had committed another crime by submitting amended false accounts”

“The bank in the first place managed to open an account for a dormant company - quite an achievement.”

He summed it up as follows:

“The bank may itself have committed a criminal offence”

“The bank can be seen as having aided a company that turned out to be doing suspicious transactions (helping to launder money?)”

“The bank has likely breached numerous regulatory requirements”

“The bank has behaved unethically” (All citations above from here: (Danish Financial Authority, 2019)

As the report says, the whistleblower, Wilkinson mentioned an interesting case when a company, established in the UK, provided fake information about its balance sheet for the authorities both in the UK and in Denmark. “At the close of the annual financial statements at the end of May 2012, the customer had stated that the company was a “dormant” company. In fact, the company had deposits of USD 965,418 with the branch at the end of May 2012 and had an extensive transaction history.” (Danish Financial Authority, 2019) The Organized Crime and Corruption Project and its partner, the Danish newspaper Berlingske identified that company, which was the Lantana Trade LLP, which was active in 11 month, but in that time very active. On a daily basis, the network in which Lantana was involved, laundered up to US\$ 10 million. (“Report: Russia Laundered Millions via Danske Bank Estonia,” 2018) The network contained shell companies in Marshall Islands and in Seychelles, and “have been involved with several Russian banks that had been closed down in recent years.” One of those banks was the Promsberbank, at that time Igor Putin, Vladimir Putin’s cousin was one of the bank’s board member. (“Report: Russia Laundered Millions via Danske Bank Estonia,” 2018.)

“There has been a near total process failure.” – as Howard Wilkinson was cited as the unnamed whistleblower in the Danish Authority’s report. (Danish Financial Authority, 2019)

4.3 The Troika Laundromat

The money laundering scandal, named by the Organized Crime and Corruption Reporting project about the name of a Russian bank, the Troika Dialog for the “Troika Laundromat” is the newest money laundering story in the Baltic countries, which based on the largest leak of banking information ever, the investigative journalists received information and documents about around 1,3 million transfers. (“The Troika Laundromat - OCCRP,” 2019) The story, which revealed how

the Russian elite channeled out billions of dollars from the country through offshore companies with the help of the private investment bank, and some unwitting persons, who did not even know, that their signatures on some particular documents helped to launder money. In several cases money from grand corruption and fraud. (“Vast Offshore Network Moved Billions With Help From Major Russian Bank - OCCRP,” 2019) The difficult financial network of shell companies in tax havens and offshore havens functioned between 2006 and 2013, and more than USD 8 billion went through on those companies to hide the beneficial owners, and channeled through the money on Western-European banks like the Raiffaisen Bank, Citigroup Inc., and the Deutsche Bank. To describe how the system worked, I just selected one random company from the vast number of shell companies from the database of the Organized Crime and Corruption Reporting Project and to give an example how the money moved. The company Prolink Solution Ltd., received seven transfers from two firms, the Nikitas Brokerage Ltd., and from the Triotrade Merchants Inc. in the amount of US\$ 16 million. On Triotrade’s account were documented one thousand payments received and also one thousand payments made by the firms. Typically, the received payments had four purposes: loan, construction material, deposited money and balance transfer from branch account. Altogether Triotrade received more than USD 350 million. The main payers were also offshore companies, like Quantus Division Ltd, Diamondco Ltd, or several other shell companies. The most suspicious activity on Triotrade’s account were the large amount of deposits, usually between several thousand USD and sometimes US\$ 1,5 million. In a few year the firm deposited on its account hundreds of times large amounts, and the next day they returned the same amount which was deposited. The fake loans and contracts about construction materials were the basis of the money laundering scheme. As OCCRP described the laundromat in their story: “Four essential elements are needed to build a functioning Laundromat: a bank with low anti-money laundering

compliance standards; a maze of secretive offshore companies to hold accounts at the bank; proxy directors and shareholders for both the companies and the accounts; and the so-called formation agents that can quickly create, maintain, and dissolve the offshore companies as needed. The bank orchestrated all of these components of the Troika Laundromat, in addition to directing the money flows and fake trade deals that made up its operations.” (“Vast Offshore Network Moved Billions With Help From Major Russian Bank - OCCRP,” 2019) Troika Dialog also involved the Lithuanian Ukio Bankas to host the accounts of the offshore firms, but at that time the Baltic country did not introduced yet the Euro, so Ukio needed other Western European financial institutions to handle euro transactions, and Ukio choose the Austrian Raiffaisen Bank and the German Commerzbank for this job. But other European lenders and the New York based Citigroup Inc. also accepted and handled dirty money from the Troika Laundromat. (“Vast Offshore Network Moved Billions With Help From Major Russian Bank - OCCRP,” 2019) In the next two figures I illustrate, in which countries were the money transferred, and also the amounts. It is very interesting to see, that the largest amount wandered to Lithuania, and Latvia and Cyprus are in the top five. The latter figure collects the most important banks, played role in the laundromat.

Main countries where the money was transferred

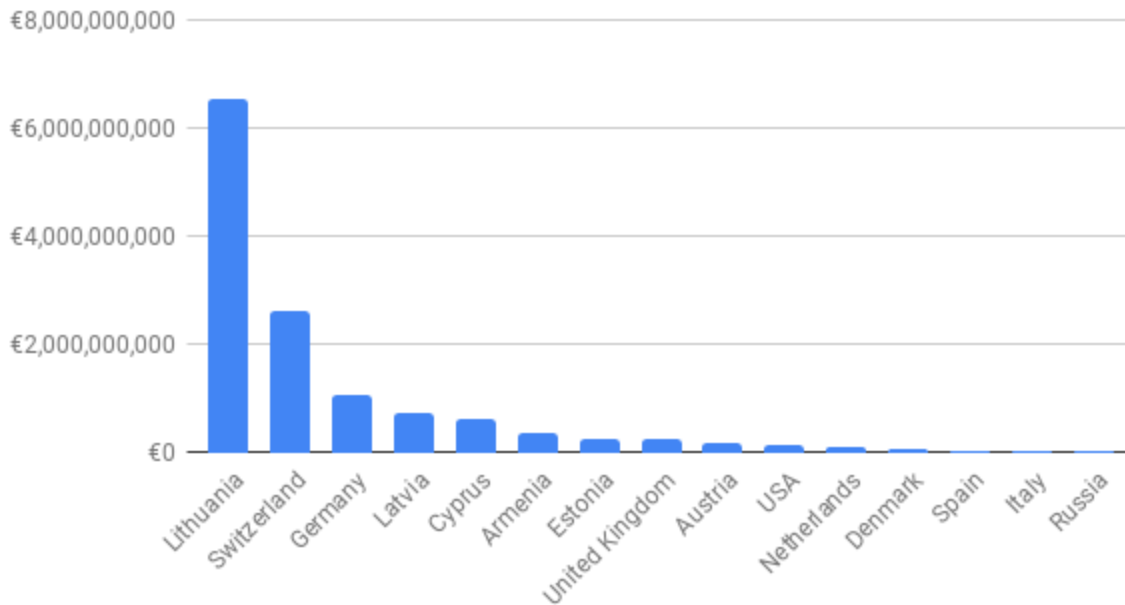


Figure 10: The main countries where the money was transferred with the laundered amounts Source:OCCRP data

Main Banks Used in the Network of Troika

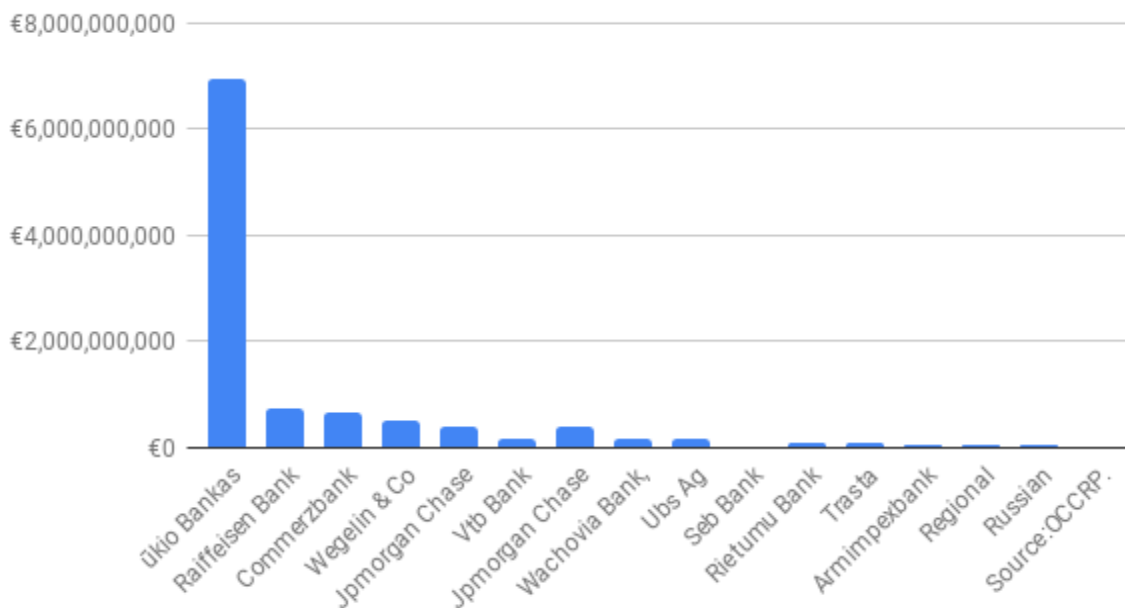


Figure 11: The main banks used in the Troika Laundromat network Source:OCCRP data

The laundromat also involved peoples who were unwittingly involved in the money laundering scheme, like the Armenian construction worker, Armen Ustyan, whose signature appeared on documents of bank accounts, offshore companies and contracts worth around US\$ 70 million. (“Vast Offshore Network Moved Billions With Help From Major Russian Bank - OCCRP,” 2019)

According to the article, the a vast amount of the laundered money came from Russian corruption cases, frauds and embezzlements, like the Sherementyev fuel fraud, or the Magnitsky Case named tax fraud. (“Vast Offshore Network Moved Billions With Help From Major Russian Bank - OCCRP,” 2019)

In this chapter through the details of the Russian and Troika Laundromats, and the Danske Bank scandal, it became more understandable, how illicit fund have flown into the European Union, and from what kind of sources. It is very important to note, that much of those suspicious transfers were connected to corruption, bribery and fraud, and the most important aim was of this activity was to hide the beneficial owners of those funds and assets, and also to legalize the hot money. In the next chapter I will try to find out, how the European Union and its Member States reacted when the stories from the leaked documents and transactions were revealed.

Chapter 5. The Impact of flowing dirty money in the European Union

5.1 Combating money laundering and cooperation between authorities in the European Union

The demand for transparency is now greater all around the Globe, and that is why is greater the demand also for the international community to develop standards and rules against wrongdoings through offshore havens. The leaks as the Panama Papers and the Russian Laundromat triggered not just criminal investigations in the European Union's member states, but also in the United States. It is also possible, that after the full revelation of the and the Troika Laundromat (the story started in March 2019 at the Organized Crime and Corruption Reporting Project and its partners, but it is possible that more article will be published on this story later on) more investigation will start by police, prosecutors and financial authorities. After the Danske Bank scandal several resignations happened, for example the CEO Thomas Borgen stepped back and later on he was charged with failure to prevent suspicious transactions connected to one of the largest money laundering scandal in Europe. ("Prosecutors charge ex-Danske Bank chief in money-laundering probe | Financial Times," 2019) The former chair of the Danish financial regulator, Henrik Ramlau-Hansen was also charged because of his connection to the money laundering scandal. ("Denmark's former top regulator charged over money laundering | Financial Times," 2019) As the Swedbank admitted, through their Estonian branch – similarly as in the case of Danske Bank – in a decade around Euro 135 billion "high –risk-non-resident" money flowed through. As the Financial Times reported, "US regulators have opened multiple inquiries into potential money laundering at Swedbank." ("Swedbank creates financial crime unit after dirty money scandal | Financial Times," 2019) But resignations and fines are not enough to combat money laundering

and clean the financial system from the dirty money. After the above mentioned scandals today it is clear, that there is a crucial need to cleaning up this area fully.

“We support any initiative that leads to a more harmonized and more coordinated approach to anti-money laundering. Ideally this would be a single agency.” (“ECB’s Coeure says EU should have agency to fight money laundering - Reuters,” 2018) Reuters quoted in their article Benoit Coeure, board member of the European Central Bank, who also thinks, according to the press agencies report, that the “best way for the European Union to counter money laundering would be to set up a single agency to supervise financial crimes at banks.” (“ECB’s Coeure says EU should have agency to fight money laundering - Reuters,” 2018)

The EU’s anti-money laundering framework is mixed, combines a single market with national supervisory authorities, and supervises the both banks and other financial companies and non-financial firms, which as the large sequence of money laundering scandals has been proven, this kind of architecture of anti-money laundering prevention and fighting against the in- and outflow of dirty money in the EU is ineffective. Benoit Coeure might has right, when he says that the Europe needs a stronger EU level anti-money laundering supervisory authority, or at least, a stronger EU role in fighting illicit finance.

To see and understand the current supervisory development of the European Union, first of all I will introduce the main pillars of fighting money laundering.

According to Kirschenbaum and Véron, the first is the administrative stage, where the anti-money laundering supervisors examine financial entities and if they do not adhere to the existing anti-money laundering regime, for the non-compliance the authority has the power to charge fines.

“These entities include banks and other financial firms but can also include casinos, precious

metals dealers and – in the European Union – art dealers, lawyers and accountants.” (Kirschenbaum & Véron, 2018) The European Union stresses more emphasis on the supervising of non-financial companies than the United States, and it means also, that in the most European jurisdictions the coexistence of several sector-specific supervisors is prevalent. These jurisdictions, as mostly all of the globally, are working according to the recommendations of the Financial Action Task Force (FATF) in a way that the anti-money laundering regimes require “obliged entities” to maintain a risk-based anti-money laundering program, which means that the companies have to analyze the risk profiles of their clients and consumers, monitor their transactions, build up a due diligence system and produce suspicious activity reports if they find some suspicious transactions. (Kirschenbaum & Véron, 2018) For banks there is an alliance of prudential and anti-money laundering supervision. But there could be differences between countries and jurisdictions regarding the arrangement and practices of the supervisory authorities. For example, the case of the Danske Bank’s Estonian branch. For several years, hundred billions of euros of money of high-risk non –residential money flowed through on the Estonian branch of the Danish lender. But while the prudential supervision of the bank’s foreign branches is the responsibility of the home country’s, the Danish supervisor, the anti-money laundering supervision is the responsibility of the host country’s, the Estonian supervisory authority.

According to Kirschenbaum and Véron the second pillar embodies the Financial Intelligence Units (FIUs), which analyses and disseminates the reports, collected by the obliged entities. While there is usually one Financial Intelligence Unit in every jurisdiction, their organizational set up could be very different. In one country the FIU is part of the judiciary system or an administrative agency, in the other can be also a stand-alone agency. (Kirschenbaum & Véron, 2018)

The third pillar consist of the justice system and the law enforcement agencies, responsible for the investigation and prosecution of people that commit crime related to money laundering. No one Member State of the European Union has the same supervisory architecture, stresses Mellissa van der Broek, scholar of the Utrecht University School of Law, who also said, that the “power of Member States to determine the competent (supervisory) authorities and the procedural norms is referred to as the principle of national procedural autonomy.” (Melissa van den Broek, 2014) She also says, that these differences may cause problems in cross border investigations in sanctioning and supervision of the cases, this is why procedural autonomy has become more limited in the European Union and why the Europeanisation of the anti-money laundering filed became more and more popular. (Melissa van den Broek, 2014) Because of the freedom has given for the EU Member States by the Third and now the Fourth and soon the Fifth Money Laundering Directive the countries architected their supervisory systems or regimes in very different manners, thus the regulations are influenced also by national factors, including economic, financial and law systems and even culture or politics. (Melissa van den Broek, 2014) Van der Broek together with Brigitte Unger and other scholars in the ECOLEF report defined four types of the supervisory architecture in the European Union, which partly differs from the three pillars system of Kirschenbaum and Véron. According to van der Broek, the supervisory models are presented in the following way: there are the Financial Intelligence Unit models, the external, internal and the hybrid models. The FIU model is very similar to what Kirschenbaum and Véron described, but van der Broek also mentions, that FIUs are “Decisive, however, is the fact that the responsibility for the proper carrying out of the supervision by such other authorities in respect of the preventive anti-money laundering policy remains with the FIU.” (Melissa van den Broek, 2014) It is also important to note, that van der Broek together with Unger and others conducted their research between 2009

and 2012, so, some information could change regarding the countries supervisory architecture in the European Union, and the largest money laundering cases which I have mentioned in the earlier chapters were revealed just in the last 3 years, and the scandals might triggered policy responses in the countries and also in the European level. To this topic I will go into details later on in this chapter too. Back to van der Broek's theory about the policy designs, she described their second model as the external model: it means external supervisors who has no professional and direct relationship with those who are under supervision. In that system the final responsibility of the decisions and the supervision is shared by other supervisory decision makers. (Melissa van den Broek, 2014) "The main characteristic of this model is that generally existing supervisory structures are used and that authorities designated for AML/CTF supervision have usually already had some supervisory tasks, possibly, but not necessarily, in this policy. This general outline of the model does not disregard the fact that in practice supervision or the sanctioning of legal or fiscal service providers can also be (partially) performed by professional associations." (Melissa van den Broek, 2014) Third model is the internal model, which means that the anti-money laundering supervision is made by an internal body, usually by professional associations, because, according to van der Broek, the national legislator's belief, that such professional associations are better able to perform anti-money laundering supervisions than the government agencies. Several times the anti-money laundering supervision is incorporated in the norms or code of ethics of the particular profession. But in the case when a profession have no jurisdiction, the supervision has to be done by a national agency. (Melissa van den Broek, 2014) The fourth, the hybrid model combines the elements of the three above mentioned models. The variation of the mixture can differ country by country, it could be internal and external supervision together, or also the internal-external together with the FIU model. (Melissa van den Broek, 2014) In the next figure,

which illustrates how van der Broek categorized the supervisory architecture of the Member States in the European Union, I would like to demonstrate the variety of models country by country.

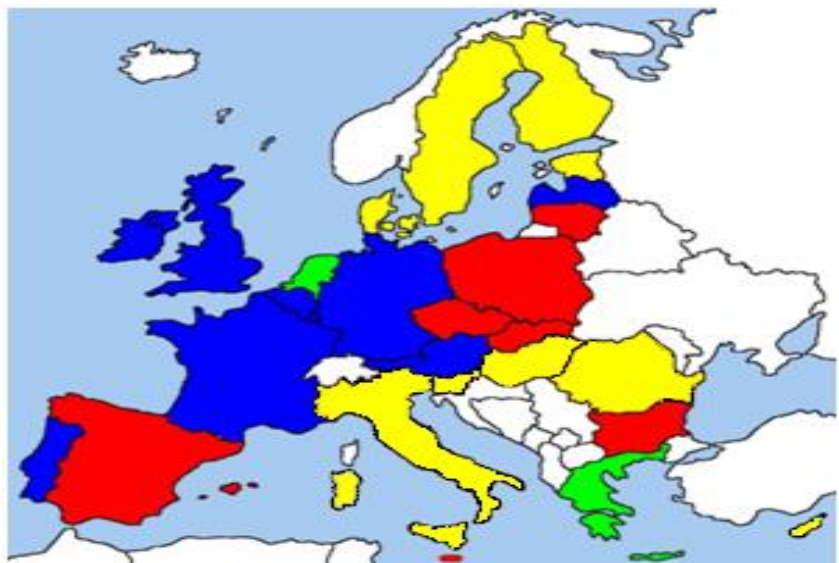


Figure 12: Policy in the European Union. Legend: Red – FIU model. Green – External model. Blue – Internal model. Yellow – Hybrid model.Source: Melissa van der Broek: Designing Supervision under the Preventive Anti-Money Laundering

Van der Broek listed in her paper the strengths and weaknesses of the models, which I drafted in short in the next figure. The hybrid model is missing from the figure, because it is a mixed model, and its strengths and weaknesses are depend on the variation of the mixture.

	FIU model	External model	Internal model
Strengths	Focus, cross over analytical and supervisory functions, comprehensive overview of compliance	Sectorial knowledge, external supervisors are more suitable for anti-money laundering supervision	Dialogue with obliged institutions to stimulate compliance, professional knowledge, adequate resources
Weaknesses	Resource issues, lack of sectorial knowledge	Lack of supervisory powers or difficulties to apply those powers, knowledge of the supervisees, AML supervision is integrated in general supervision	Conflict of interests, doubts about the actual independence of the internal supervisor, challenging to ensure the proper coordination and coherence of supervisory practice

Figure 13: Strengths and weaknesses of the models according to van der Broek. Source: Melissa van der Broek: Designing

Supervision under the Preventive Anti-Money Laundering Policy in the European Union

Cooperation and consistency are keywords in the work of those models regardless of they are FIUs, external, internal or hybrid models. They are more effective, if they can share information during their investigations, for example about beneficial ownership of the involved firms. With similar aim was established in the early 90's the global network of the Financial Intelligence Units, Egmont Group, which consist of 158 members, and "provides a platform for the secure exchange of expertise and financial intelligence to combat money laundering and terrorist financing." ("About - The Egmont Group," 2019)

Most frequently Member States of the European Union are signing supervisory agreements as a form of cooperation, but ad hoc meetings, phone calls and sharing and publishing information is also very important. (Melissa van den Broek, 2014) According to Kirschenbaum and Véron, the EU and the European Banking Authority also found a way to develop a platform to achieve a higher level of cooperation between Financial Intelligence Units in the European Union, the EU FIU's Platform, which support occasional projects. The European Commission also developed a computer network, the *fiu.net*, which is "designed to facilitate the highly secure connections required for these exchanges of information." (Kirschenbaum & Véron, 2018)

5.2 Policy developments recently and their connection with whistleblowing and leaks in the European Union's level

Responding to the Panama Papers revelation, the European Commission strengthened the fight against money laundering, according to a document of the European Commission. (Jourová, 2018) This papers also gives an answer for my question in the title of the thesis, which asks: How does whistleblowing and leaking affect anti-money laundering policy changes in the European Union?

First of all, the document signed by Vera Jurov, Commissioner for Justice, Consumers and Gender Equality, says, that the Fifth Anti-Money Laundering Directive, which came to power in July 2020 and the Member States have to implement it by 10. January 2020, will increase the transparency of “opaque” company networks, which are hiding the real ownership behind the structures. It will also not just improve the effectiveness of the Financial Intelligence Units through access to information of centralized bank registers, but also will tackle with the terrorism financing risk of the virtual currencies, which are used usually anonymously. (Jourov, 2018) The next directive will “improve the cooperation and exchange of information between anti-money laundering supervisors and with the European Central Bank; and broaden the criteria for assessing high-risk third countries and ensure a common high level of safeguards for financial flows from such countries.” (Jourov, 2018)

How can the directive enhance accountability and combat money laundering? According to the one of the most important parts of the new directive, the beneficial ownership of companies will be public, it means in practice, that every citizen who has access to business registries will be able to check who the real owner of the company is. It will be more important for investigative journalists. According to the Fact Sheet, for competent authorities and Financial Intelligence Units the data on beneficial ownership of trust will be also accessible, and for persons “who can demonstrate legitimate interest.” (Jourov, 2018) This national registers will be interconnected in Europe, and Member States has to develop their verification mechanism of the data collections about beneficial ownerships. Supervisory authorities will have also stronger cooperation with each other and also with the European Central Bank. “The European Commission already has set up a joint working group to support such closer cooperation and exchange of information, given that risks of money laundering can also pose a risk to the financial stability of a bank.” (Jourov, 2018)

Probably it does not mean, that every shell company will publish who is the real or the beneficial owner of the difficult company network, which contains firms in tax havens like British Virgin Island or Panama. Nevertheless, if such European countries like Cyprus and Malta, where professional money launderers are trying to help for criminals and others to hide their ownership and their assets will implement the new rule, it could strengthen transparency. It is also a very important and interesting question, whether those owners when and where will move their companies and where and how will they hide their assets and themselves behind the opaque structures. The same question implies also for the United Kingdom, which is a very important and frequently used place for money launderers to hide and launder their wealth. And the Brexit will make this question more interesting.

“The Fifth Directive is simply about closing the loopholes, people cannot hide money from suspicious sources” said in a phone interview conducted in April 2019, Kevin O’Connel, member of the cabinet of Věra Jourová, European Commissioner for Justice, and Consumers and Gender Equality. As O’Connel told, one of the main goal of their proposal was to increase the cross border dimension of combating money laundering and financing terrorism, but also to increase the level of cooperation between the Member States. He stated, the role of this coordination is now soft, but a few days ago the Member States approved the new powers of the European Banking Authority in order to strengthen coordination in combating money laundering, which means that from next year, after the new rules were implemented in the Member States, the European Banking Authority will be able to force national authorities to launch investigations. But the main supervisory power will stay at the national level. O’Connel explained, that the idea, supported by the European Central Bank and some Member States, to create a new European anti-money laundering authority was not preferred by the majority of the governments, the “Council of European Union rejected the

plan.” He mentioned that “we are not heading to establish a European body, a European Financial Intelligence Unit, but the European Commission should assess whether it is would make sense. But is a project for the longer term.” O’Connel also stated; the European Public Prosecutor’s Office, which is an independent and decentralized body of the European Commission with 22 participating Member States, has also the competence to investigate not just VAT fraud, and crimes against the EU budget, but also money laundering, if it is connected to those crimes. Regarding the question which was connected to the affects of whistleblowing on anti-money laundering policy changes, O’Connel stated, the Panama Papers was the “new influence” to which generated the debate about shell companies and hiding wealth in tax havens. The European Parliament set up a Panama Committee which analyzed the situation and asked a lot of question regarding the revealed documents and reports, which lead the resignation of several politician, including the Prime Minister of Iceland, and the bodies of the European Union became more stricter regarding beneficial ownership transparency, and the legislation is updated. “Thank to investigative journalists, we modernized the rules.” He also mentioned the influence of the Russian Laundromat, revealed by the Organized Crime and Corruption Project, and as part of that Laundromat, the ABLV Bank scheme helped the policy makers and decision makers to get the proposal of the Fifth Directive agreed. “The text book example what we wanted to solve with this directive was Danske Bank scandal, it was clearly a cross border money laundering scheme, which confirmed the need of the reforms” – concluded Kevin O’Connel.

5.3 Recent money laundering scandals and their revelation played an important role in the policy developments in the EU Member States

It is absolutely important how the European Union reacted in the last three years for the revelations of banking scandals connected to money laundering cases, and for the revelation of the Panama and Paradise Papers. But how the nations reacted? It is very important to note that some of the stories about the scandals were just published very recently, so the reactions are ongoing. But if we get the whole picture of the last few years taking into consideration the money laundering schemes and the countries' reaction, the most interesting states are the Baltic States, Estonia, Latvia and Lithuania. Because these three country were the first stage if the dirty money in the European Union, and also the banks in those countries where the main actors of the legalization of the hot money, which mostly came from Russia and other ex-soviet countries. The reaction in Denmark, is also very important, because the honored lender from the most transparent Nordic country played a very important role in the money laundering schemes. It would worth to analyze also the changes in the UK, but the United Kingdom's ongoing policy changes are so enormous, that it is beyond the scope of this paper.

Estonia

Estonia, the country of the so called digitalized society, was hit by two times from professional money launderers. First, when investigative journalists of the Danish newspaper, Berlingske shed light of a Euro 200 billion money laundering scandal of the Estonian branch of the Danish lender, Danske Bank. And secondly, when the Swedish television channel, SVT investigated and published the story of the money laundering scheme of the Swedbank's Estonian branch. In the latter case also a huge amount of hot money have flown through of the Estonian branch of the

Swedish lender, some 130 billion of Euros. The scandals had been followed by resignations of CEOs, criminal and financial investigations started as I mentioned in the above chapters. But how the anti-money laundering policy changed in the mentioned states.

The Nordic-Baltic cooperation regarding combating money laundering started to strengthen, according to the press release from 8. May 2019 of the Danish Financial Authority. (“Nordic and Baltic financial supervisors enhance cooperation to fight money laundering,” 2019) The financial supervisors of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania Norway and Sweden met and decided to establish a working group to change experiences and information, with the main aim of being more effective in the fight against money laundering and also in the field of prevention.

““Today’s agreement marks a significant step forward in the combined Nordic-Baltic efforts to combat money laundering and terrorist financing.” –cited the press release Jesper Berg, Director General of the Danish Financial Supervisory Authority. (“Nordic and Baltic financial supervisors enhance cooperation to fight money laundering,” 2019)

But further steps needed from Estonia to decrease the risk of money laundering in the country, because, as the Organized Crime and Corruption Reporting Project reported, the anti-money laundering reforms were rejected two times by the parliament in the last few months. Kilvar Kessler, Chair of the Management Board of Finantsinspektsioon, the Estonian Financial Authority, commented also on the weaknesses of the money laundering policy in Estonia, he thinks, the fines are not enough high to keep the wolf from the door of Estonian financial system. ““We have been highlighting since 2004 to our partners that the monetary fines in the financial sector have no impact. They have risen over time from 3200 euros to 32,000 euros and in some cases even to 400,000 euros, but these numbers are not enough of a deterrent for big, professional financial intermediaries” said Kessler. (“International cooperation in financial supervision has taken on new

dimensions says Kilvar Kessler | FSA,” 2019) With a staff of 87 persons, the Estonian authority is the smallest in the European Union. In 2018 the European Central Bank withdrew the operating license of the Versobank in Estonia, because of serious breach of anti-money laundering rules. Kessler stated in his annual report before the parliament, Riigikogu that with the closing of Versobank and with the closing of Danske Bank’s non-resident portfolio, the non-resident risk of the country have been reduced. Kessler also mentioned, that “Most of the banks are taking the reduction of risks and better risk control seriously.” (“Presentation of the Annual Report of Finantsinspektsioon for 2018 by Chair of the Management Board Kilvar Kessler | FSA,” 2019) He mentioned also the shortcomings of the Estonian financial system. As he said, the bank’s current anti-money laundering system is kind of outdated, too mechanical and vulnerable. The lenders should improve their IT systems and security. (“Presentation of the Annual Report of Finantsinspektsioon for 2018 by Chair of the Management Board Kilvar Kessler | FSA,” 2019)

Denmark

The Danske Bank case put pressure not just for Estonian authorities, but also for the government and financial sector in the lenders home country, Denmark.

As Lars Rohde, the governor of the Danish Nationalbank said, “Unfortunately, money laundering has been on everyone's lips in 2018.” (Rohde, 2018) Lars Rohde also stressed in his speech the huge responsibility of the banks in fighting money laundering, which is also a self-critique, because he says, that the defense line of the banks are not enough strong and also they do not now enough well their costumers: “There are indications that the lines of defence are too far back. They should be reached long before reporting becomes necessary. In other words, the banks should have knowledge of their customers. As payment systems have become faster and more efficient, it is of paramount importance that the banks have in-depth knowledge of their customers. It is the role of

the authorities to investigate cases of money laundering if there is suspicion of illegal activities. But before it comes to that, the banks have a responsibility not to engage in customer relationships if the real motives of the customers are dubious.” (Rohde, 2018) He called for strengthened cross border cooperation against money laundering in the European Union, and between the Financial Intelligence Units. Beyond cooperation, other changes happened in the Nordic country. According to the document of the Danish Financial Authority, for the expansion of data driven supervision, the annual IT funding of the authority increased with DKK 20 million (around 2,7 million euro), with an additional DKK 10 million for the analytical work, annually. The Danish budget spent also DKK 30 million in 2019 to follow up the Danske Bank case in Estonia. The Danish authority will also reorganize themselves in a way that it will tackle with financial crime in four pillars: bank and mortgage supervision, financial crime and conduct supervision, supervision of insurance and pension companies and capital markets supervision. (Danish Financial Authority, 2019) It is very interesting that the European Commission’s MONEYVAL assessment about the country regarding the risk of money laundering was kind of satisfied with the progress of the country. True, the last report was published in 2014, years before the Danske Bank case was revealed. The MONEYVAL report stated that the money laundering risk is broad in the country, but “the authorities have been effective in securing ML convictions for self-laundering, third party laundering and stand-alone ML. Some issues remain within the judiciary regarding the level of proof required to establish the underlying predicate criminality.” (MONEYVAL, 2014)

Lithuania

According to the last MONEYVAL report of Lithuania, the country's overall understanding in money laundering is "limited" and its risk assessment is "not comprehensive enough" (MONEYVAL, 2018). According to the report, the risk, posed by the companies are not assessed and there is a broad agreement between the authorities, that the limited liability companies pose the highest risk. It is connected to the opaque structures, and the hidden beneficial owners of those firms. Usually from banks, basic information are available for the authorities but the shareholder information is very rarely available and the accuracy of the information of business registries are not always reliable. (MONEYVAL, 2018) The Organization for Economic Co-operation and Development (OECD) was similarly critical regarding the country's development on anti-money laundering policies and transparency, because even by the high risk companies or entities inspections are scheduled by every 2-5 years, and the lead examiners of the OECD were concerned that the inspections and the enforcement of the Suspicious Transaction Reports in Lithuania "lack rigour and regularity." The legislature in 2017 increased the sanction for failing a Suspicious Transaction Report from EUR 10 000 to EUR 5.1 million for natural and legal persons or 10 per cent of annual turnover for legal entities. According to the OECD report, this actually means, that sanctions for committing actual money laundering are less than those for failing to report suspicious transactions. (OECD, 2017)

But the scandals, especially the Danske Bank and Swedbank schemes triggered a cross national cooperation between Lithuania, Estonia and Sweden. It seems, the Bank of Lithuania recognized that the country needs serious steps to make sure that the country's financial system will not misused by organized crime to enter dirty money in the European Union and legalize it. ("Bank of Lithuania to assist in investigation of alleged money laundering cases | Bank of Lithuania," 2019)

Latvia

The case of Latvia it was quiet hard to find information about policy changes, happened after the money laundering scandals, except the press release about the Baltic cooperation with the Nordic countries. (“FKTK - Nordic and Baltic financial supervisors enhance cooperation to fight money laundering,” 2019) According to a Reuters report, the country’s government is trying to introduce new anti-money laundering reforms, before the next MONEYVAL report visit in the country. (O’Donell & Gelzis, 2019)

The Latvian bank ABVL was close down in 2018 because on money laundering, links to North-Korea’s nuclear weapons program, and Russian corruption cases. (Hudak, 2018)

According to Reuters, Latvia has somehow step up against corruption and lower the risk of money laundering and financing terrorism in the country.

“Since Latvia secured independence from Russia in 1991, more than a dozen of its banks have promoted themselves as a gateway to Western markets for clients in former Soviet states, promising Swiss-style secrecy. That policy has now been abandoned under pressure from the U.S. and despite predictions by Latvian officials a year ago that many would close, the banks are still open.” (“Latvia pledges faster money laundering reform as pressure builds - Reuters,” 2019)

Moreover, in the newest investigation of the Organized Crime and Corruption Reporting Project, the Troika Laundromat revealed also information about Latvian links to Russian dirty money, which means, the first step to the changes already happened, a large leak were exposed and the story about the scheme was revealed. Now the ball is on Latvia’s side.

In this chapter I tried to summarize the anti-money laundering policy changes in a few European country, which were connected to whistleblowing and leaks. It is very important to note, that for a

broader analysis in those countries would be necessary to conduct interviews with the stakeholders and main actors of the banking sector, especially with the governors of the central banks. It would be also necessary to conduct interviews with the leaders of the financial authorities, and if it is possible, to analyze their database and their working methods. For a detailed analysis, it would be also important to get information about their IT systems and about the IT system of the banks the particular countries, how they filter the transactions to find red flags. But this work is beyond of the scope of this Thesis, but for further research it could be a very interesting challenge to find and analyze those information. It would be also a good challenge to analyze google searches in the countries and in the banks servers for keywords of the large leaks, and conduct interviews about the reactions of the stories about the leaked documents. In the last session of the paper I will come up with policy recommendations and conclusion.

Conclusion and Recommendations

Conclusion

As a conclusion, it is important to stress, that without whistleblowing and leaks the fight against money laundering, organized crime and corruption would be less effective as it is now. The policing of money laundering is not straightforward at all, because of the nature of the topic: it tackles with money from criminal origin, which is always hidden as much as possible and involves also most of the times insiders to hide it, such as bank or government employees. Because of similar reasons, there is no exact information about the annual amount laundered globally, just estimations. The leaked documents from banks and other organizations give policy makers and decision makers an insight about the proceeds and the processes of money laundering, and also helps to hold decision makers accountable.

The large leaks, like Panama Papers, Paradise Papers, and the Russian and Troika Laundromats helped to uncover stories about corruption, fraud and tax evasion connected to money laundering. Because the detailed investigative articles about suspicious transactions, which could be connected on the one hand to organized crime, or the other hand corrupt activities, is very helpful for policy makers to easily understand what are the main problems with a country's, or the whole European Union's financial system. It also helps to clarify, where and what are the policy or legislative loopholes, used by criminals. Leaks, and investigative articles can also help to better understand the procedure, how shell companies and professional money launderers and banks can help for those criminals. Without those leaked documents maybe no one would know, how corrupt employees of honored lenders in Europe helped for the money launderers. The other finding of this paper that the Panama Papers and the Laundromats helped to understand, that beneficial

ownership of companies must be publicly available, and, in overall, the beneficial ownership of firms must be more transparent. And for this, there is a crucial need of cross border cooperation, and later on, maybe to establish a European Financial Intelligence Unit. But the very first step is to strengthen whistleblower protection in the whole European Union, to make sure, that information will flow to the investigative journalists. That could help to uncover more scandals and foster accountability.

Several organized criminals, but also politicians, government officials, business men and oligarchs, whose enrichment may have been diverted from fraud, embezzlement of state contracts or tax evasion, or fraud of European Funds, now are under investigation, or resigned from their position, like Thomas Borgen, the former the CEO of Danske Bank. The revelation of the largest leaks ever, the Panama Papers was the “first chapter”, the main trigger of the policy changes in the anti-money laundering field in the European Union. As Kevin O’Connel told in the interview I conducted with him: “Thank to investigative journalists, we modernized the rules.” The evidence of the modernization is the Fifth Anti-Money Laundering Directive, which the Member States has too implement from January 2020. It makes sure that the beneficial ownership of companies will be public, it means in practice, that every citizen who has access to business registries will be able to check who the real owner of the company is. It will be more important for investigative journalists. For competent authorities and Financial Intelligence Units the data on beneficial ownership of trust will be also accessible, and for persons who can demonstrate legitimate interest. This national registers will be interconnected in Europe, and Member States has to develop their verification mechanism of the data collections about beneficial ownerships. Supervisory authorities will have also stronger cooperation with each other and also with the European Central Bank. But in the national level in the European Union many countries has severe shortcomings

regarding anti-money laundering supervision. The Baltic States, Estonia, Lithuania and Latvia are the main countries in the center of dubious transactions originated from Russia and other ex-soviet countries. The recent leaks after the Panama Papers, named the Russian Laundromat, the Danske Bank Scandal and the Troika Laundromat were all connected to Baltic States, most importantly to Estonia. In these countries the policy changes are yet on the level of “the beginning of international cooperation” to strengthen the fight against money laundering.

Policy Recommendations

Because money laundering has a cross border nature, one of the most important tool to fight money laundering is strengthening cross border cooperation between countries, not just in the European Union, but, at least occasionally, worldwide. It would be more important in every country in the European Union to make sure that the beneficial ownership of companies are transparent, and the shareholders, directors are visible in every company. Regarding data sharing, for supervisory authorities business registries should be available in every country. Giant organizations like the Financial Action Task Force or the IMF could launch benchmark analyses in Member States of the European Union, which has to tackle larger money laundering risks, like the Baltic States, Cyprus, Malta or Luxemburg. It also could be helpful to start negotiations with Switzerland about beneficial ownership disclosures. It would be also very important, to harmonize the IT systems of financial institutions in the European Union, to make sure as much suspicious transaction would get “red flag” as it possible. It would be also very important to improve the selection criteria of the IT systems.

The implication of the UK example of unexplained wealth orders could be also useful in all member states the European Union, which require the owner of an asset to explain how they were able to afford that asset. It also could help to clarify the origin of funds. Private, independent schools should file for the national financial authority a report about how paid their students fee, so that it would be easier to check the source of the fund's legitimacy. I think it would be also helpful for the policing process, if the information would be shared between banks and law enforcers in both ways, what the banks and the law enforcers need to know to combat money laundering more effectively.

Full openness not just of the national MP's and the members of the European Parliaments financial statement, but also their family member's. To help discover more money laundering and corruption scheme, every member state should strengthen their whistleblower protection, to make sure, that people should not fear the consequences of their secret activity of giving information.

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